



# The Real Estate ANALYST

NOVEMBER 30  
1946

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

VOLUME XV

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

## BUSINESS CONDITIONS LOCALIZED

**U**P to the first of November general business was holding up remarkably well in practically all cities of the United States. The depression forecast by Washington for the beginning of 1946 did not develop, as can plainly be seen by a study of the localized business condition charts shown on pages 356 through 363. The cancellation of war contracts has been replaced by other business in most cities, and we have been going through a replacement boom in which we have been making up the accrued shortages which developed during the war.

There can be no question about the fact that the coal strike will bring about a drop in the figures for most cities. Whether this will represent very much of a permanent loss to business activity is debatable. It will clearly take longer to reach the point now where the retailers' shelves have been filled and the accrued demand for consumer and durable goods which accumulated during the war has been satisfied. The greatest danger of the strike is not that it will slow down production, because production would necessarily have slowed down a short time later anyway, but that if Lewis is successful it will start a new round of wage increases, followed by a continuing rise in the prices of commodities and services.

Several things should be kept in mind when using these charts on individual cities.

The figures for all cities have been adjusted for seasonal fluctuations, for population changes, and for changes in the general price level. The final figures are expressed as percentages above or below a prewar long-term computed normal. The percentages above normal are shown by the blue areas on the chart; the percentages below normal are indicated by the red areas.

During the depression of the thirties the figures for many State capitals were badly inflated by government payments of various types which cleared through the local clearing houses. As we have been unable to find any intelligent way of correcting for these payments, we have marked all State capitals on our charts by a red dot following the name of the city. Due to these payments, the usefulness of the charts for many of the State capitals is considerably impaired.

The charts themselves are more or less self-explanatory and should be given considerable study. The tremendous war boom in some cities shows up quite strongly in contrast with conditions in cities which secured relatively little war business. Only a very small number of cities have shown any drastic drop from the war period.

## PURCHASING POWER OF THE DOLLAR

(Aug. 1939 = \$1.00)

<u>1939</u>		<u>1942</u>		<u>1944</u>	
Aug. ....	\$1.00	Jan. ....	\$0.88	July .....	\$0.78
Sept. ....	0.98	Feb. ....	0.87	Aug. ....	0.78
Oct. ....	0.98	Mar. ....	0.86	Sept. ....	0.78
Nov. ....	0.99	Apr. ....	0.86	Oct. ....	0.78
Dec. ....	0.99	May .....	0.85	Nov. ....	0.78
		June .....	0.85	Dec. ....	0.78
<u>1940</u>				<u>1945</u>	
Jan. ....	0.99	July .....	0.84	Jan. ....	0.78
Feb. ....	0.99	Aug. ....	0.84	Feb. ....	0.78
Mar. ....	0.99	Sept. ....	0.84	Mar. ....	0.78
Apr. ....	0.99	Oct. ....	0.83	Apr. ....	0.78
May .....	0.99	Nov. ....	0.82	May .....	0.77
June .....	0.98	Dec. ....	0.82	June .....	0.76
		<u>1943</u>			
July .....	0.98	Jan. ....	0.82	July .....	0.76
Aug. ....	0.99	Feb. ....	0.81	Aug. ....	0.76
Sept. ....	0.98	Mar. ....	0.80	Sept. ....	0.77
Oct. ....	0.98	Apr. ....	0.79	Oct. ....	0.77
Nov. ....	0.99	May .....	0.79	Nov. ....	0.76
Dec. ....	0.98	June .....	0.79	Dec. ....	0.76
<u>1941</u>				<u>1946</u>	
Jan. ....	0.98	July .....	0.80	Jan. ....	0.76
Feb. ....	0.98	Aug. ....	0.80	Feb. ....	0.76
Mar. ....	0.98	Sept. ....	0.80	Mar. ....	0.76
Apr. ....	0.96	Oct. ....	0.79	Apr. ....	0.75
May .....	0.96	Nov. ....	0.79	May .....	0.75
June .....	0.94	Dec. ....	0.79	June .....	0.74
		<u>1944</u>			
July .....	0.94	Jan. ....	0.79	July .....	0.70
Aug. ....	0.93	Feb. ....	0.80	Aug. ....	0.68
Sept. ....	0.91	Mar. ....	0.80	Sept. ....	0.68
Oct. ....	0.90	Apr. ....	0.79	Oct. ....	0.66
Nov. ....	0.89	May .....	0.79		
Dec. ....	0.89	June .....	0.79		

THE table above attempts to measure the purchasing power of the dollar at retail for commodities and services using August 1939, the month before the beginning of the war in Europe, as the base point. The budget of a medium income family is used as the basis for determining the change in the buying power of the dollar.

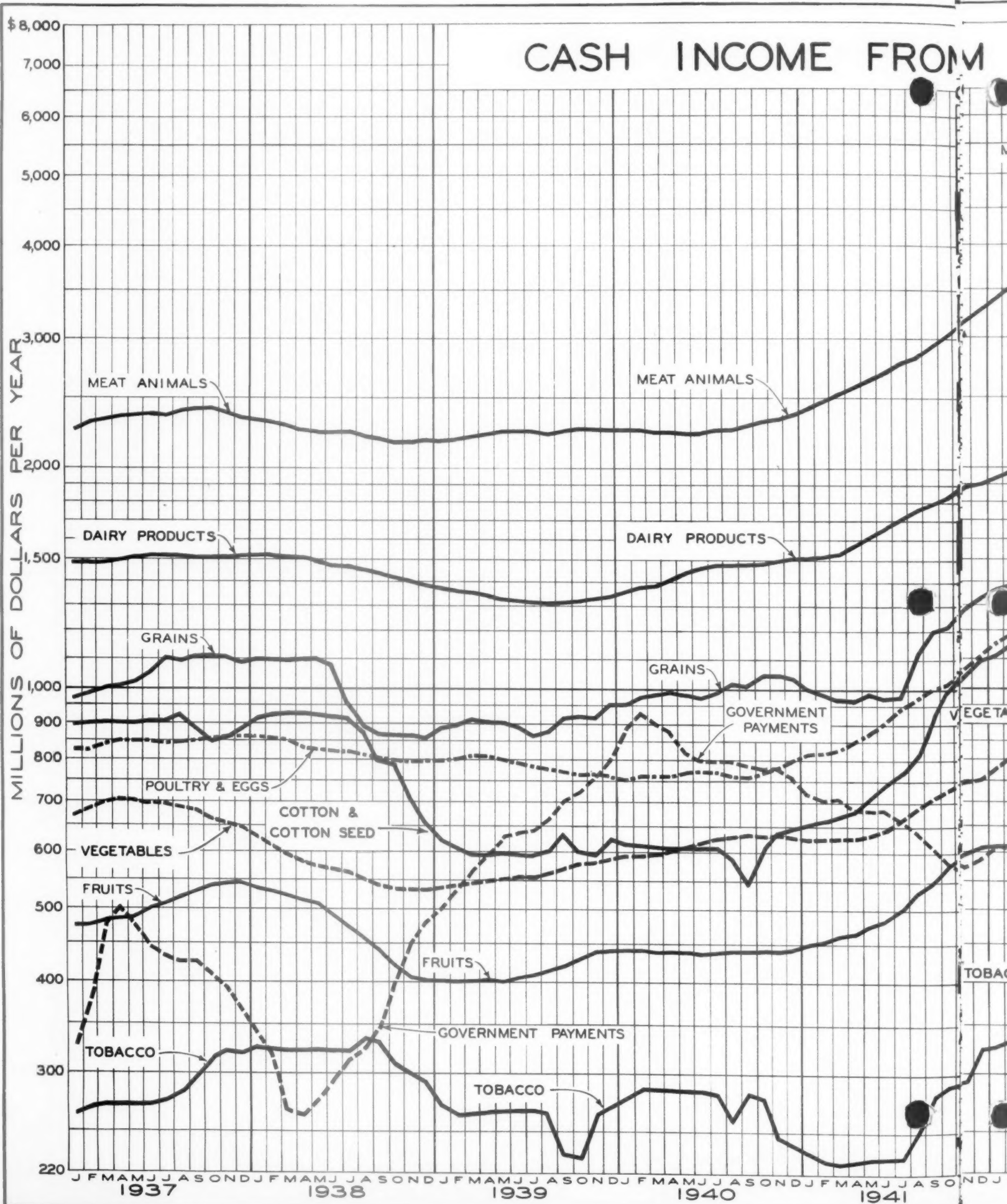
This study would indicate that in October of this year the average family could purchase only 66 per cent as much for the same amount of money as it could in August 1939. The figures for November and December are not yet available but, when they are, they will probably show a further drop.

## THE FUTURE OF FARM VALUES

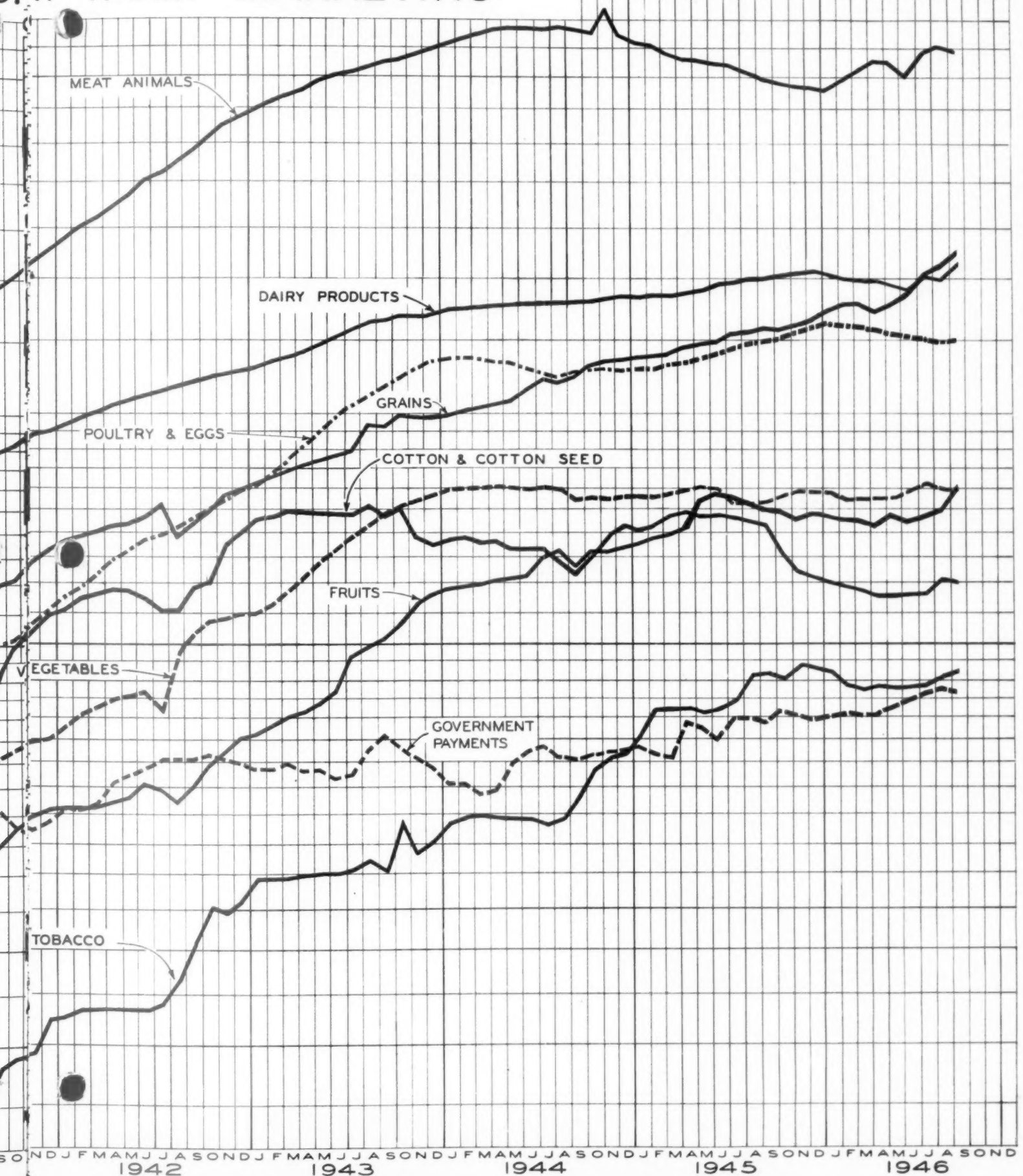
**W**E have indicated in our reports recently that we believe farms held as investments should be sold on the present market. While we do not expect a sudden collapse in farm prices, it seems to us that the reasons why farms have increased in price no longer apply, and that the forces which were constantly pushing up on farm values have lost their strength and within a relatively short period will have a tendency to pull down. The large chart on the following pages shows the cash income from farm marketing from 1937 through September of 1946. The increase in the value of farm lands during the war period was due almost entirely to changes in net income from the use of farm land. If 160 acres of land with the necessary amount of labor and material yielded a certain net in 1939, an increase in that net yield has brought an increase in the dollar value of the land. The increase in dollar yield has varied for different crops as this chart shows.

More than a century ago, Ricardo laid down the principles which determine the rent of agricultural land. In a country in which the demand for farm products could be satisfied by the production of only the most fertile land, the prices of these farm products would be sufficient to pay a reasonable profit plus the cost of production on lands of only such high fertility. If the demand increased, however, more rapidly than the production could be increased on the most fertile lands, the price of farm products would rise until it was sufficient to pay a return on the use of less fertile lands. The producer of the products on the most fertile land would be able to sell his products in the market for the same price which the producer received who had grown his products with far greater expenditures of money and effort. This surplus which the owner of the more fertile lands was able to extract from the market represents the rent of his land. This rent will depend at any time on the difference between the net profit possibilities of the operation of his ground in comparison with the least fertile and most poorly located ground which must be brought into production to satisfy the demand.

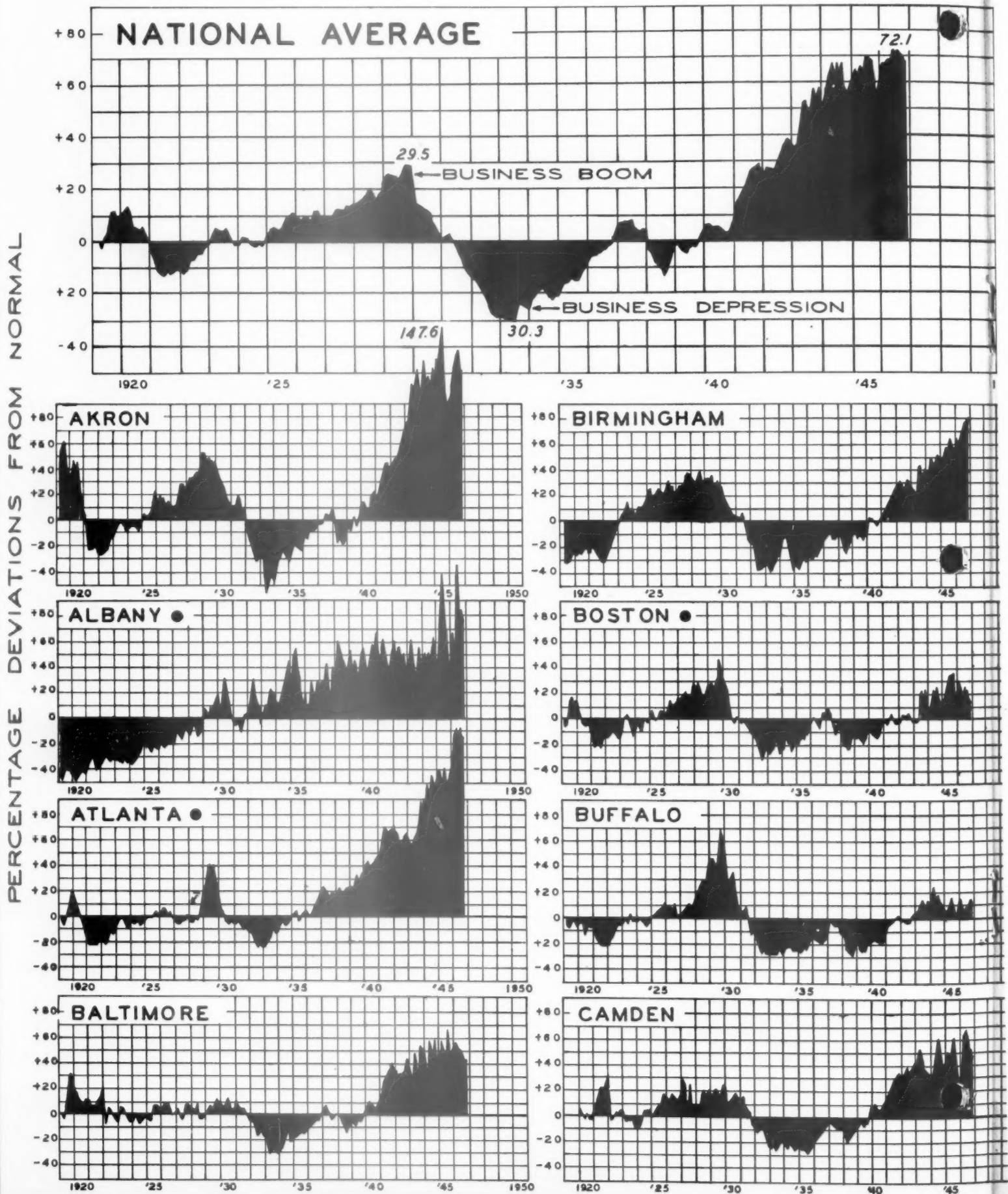
In a period of rising demand such as the period of the war through which we have just come, it was necessary to secure the maximum production, not only from the more fertile lands but from the less fertile as well, and many areas which could not normally be farmed with profit were cultivated during this war period. The price of farm products had to rise to the point where the cost of production was covered on these less fertile and less well located lands, with the result that the owner of better lands was able to secure a price which yielded a far higher return than could have been secured before the war. As demand shrinks, only the better lands will be needed to raise the necessary products and the less desirable lands will be gradually forced from production as the price which will be secured in the market for farm products will be only sufficient to pay a return on the cost of production on the more efficient farms. This will decrease materially the rent paid on the most fertile and best located farms, and will make it impossible to operate the marginal farms except at a loss. Since the rent on any agricultural land depends on the difference between the cost of production on it and on the poorest ground which must be brought into use to take care of the demand, as the necessity for operating poorer ground disappears, the rent on even the most fertile ground will shrink.

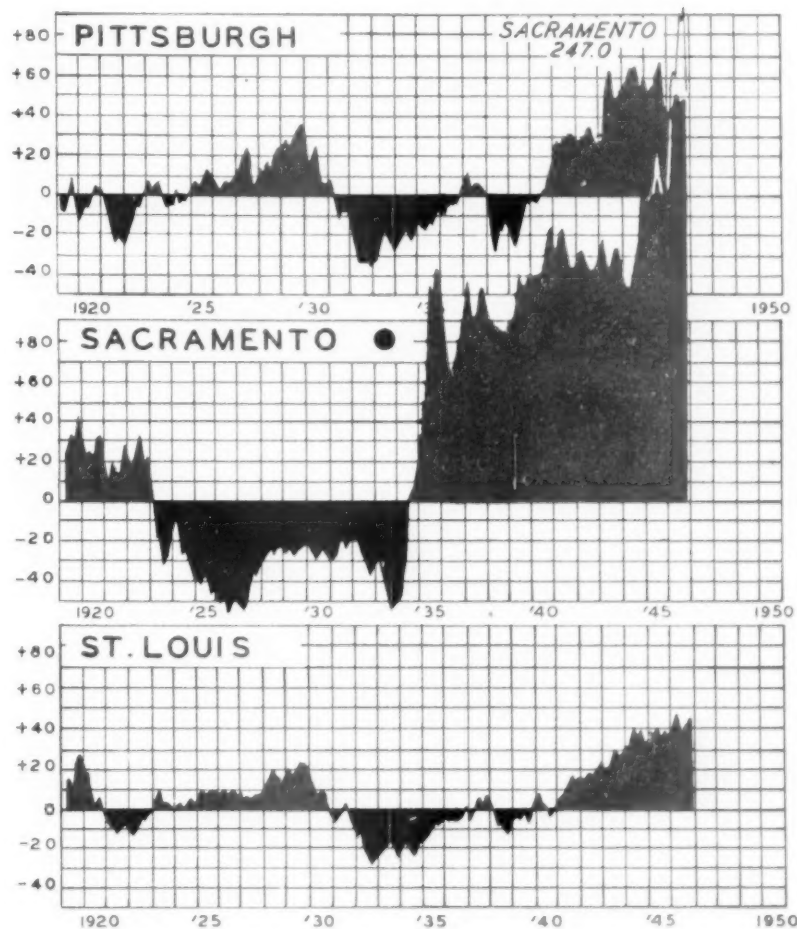


# FROM FARM MARKETING



# FLUCTUATIONS IN

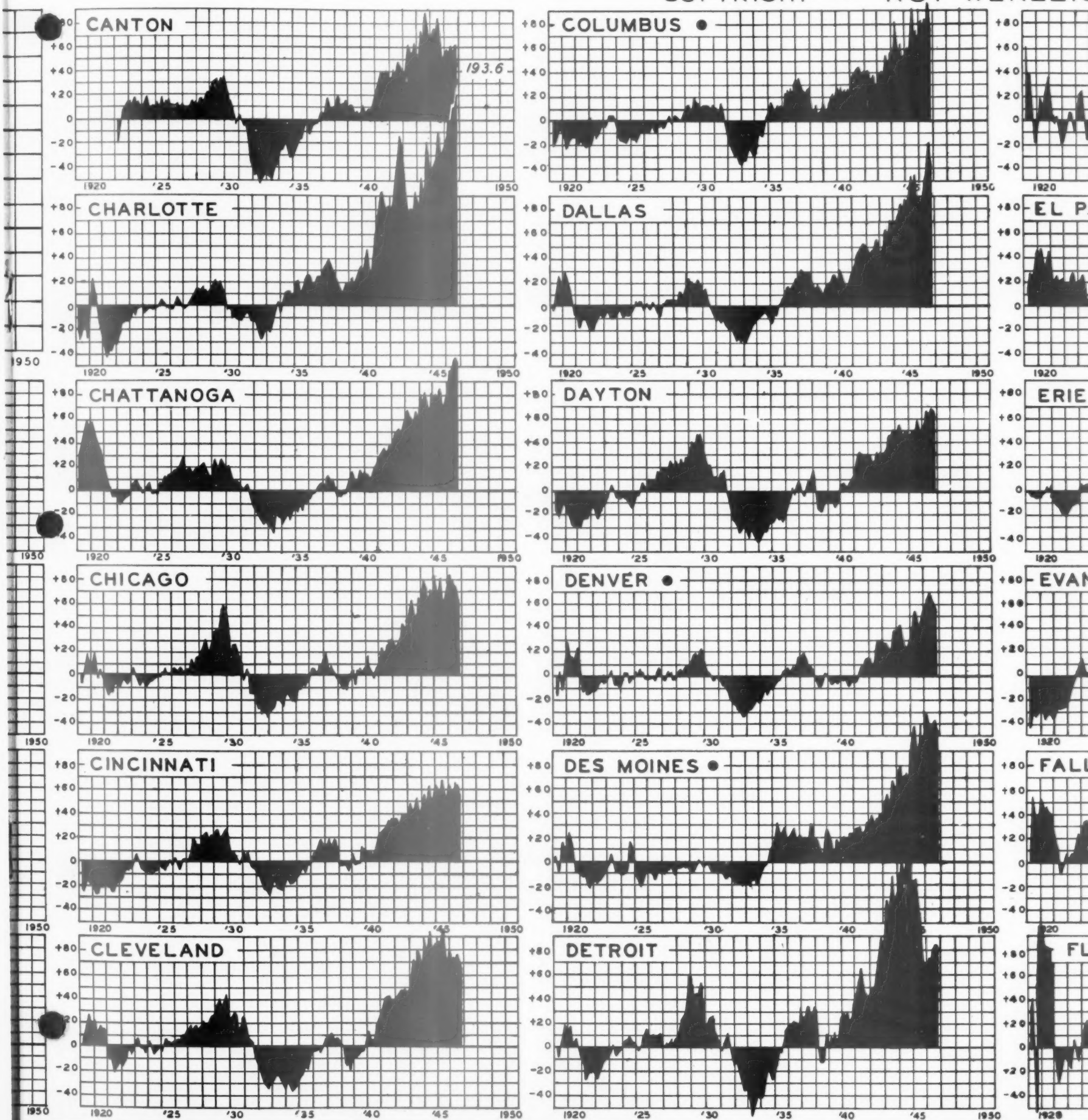




We regret that the charts for the three cities shown above were incorrectly printed in the Real Estate Analyst of November 30, 1946. Please substitute the accompanying charts.

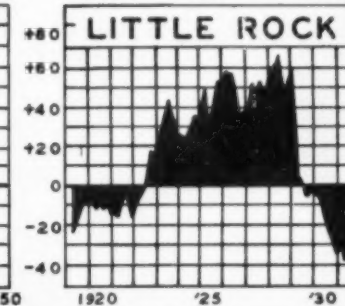
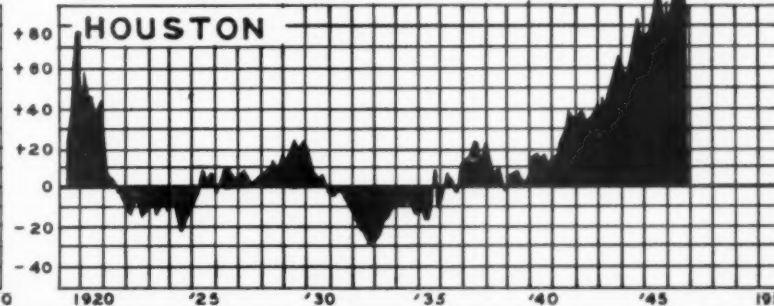
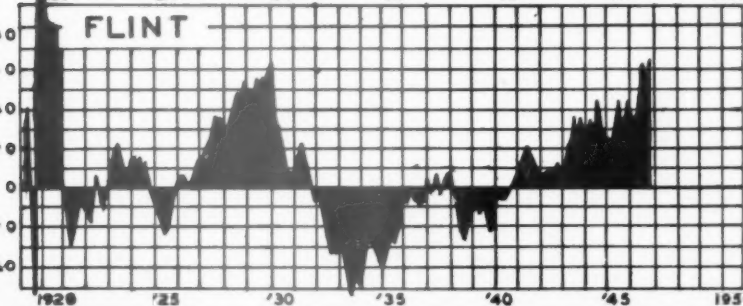
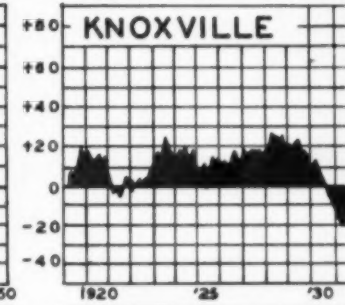
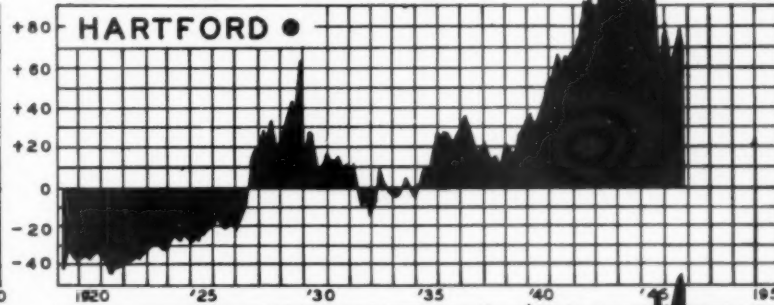
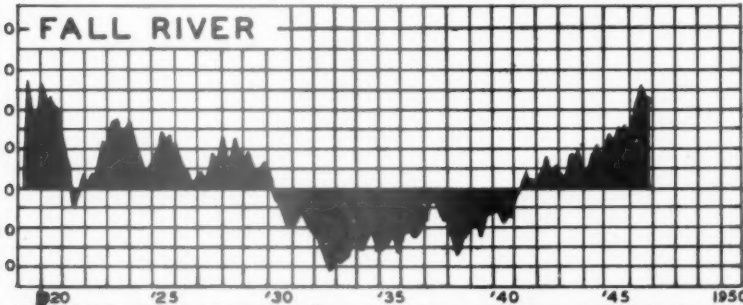
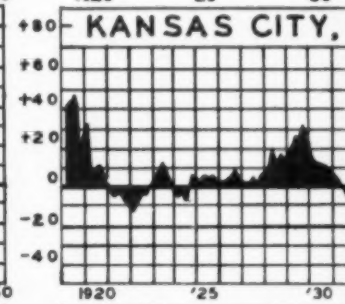
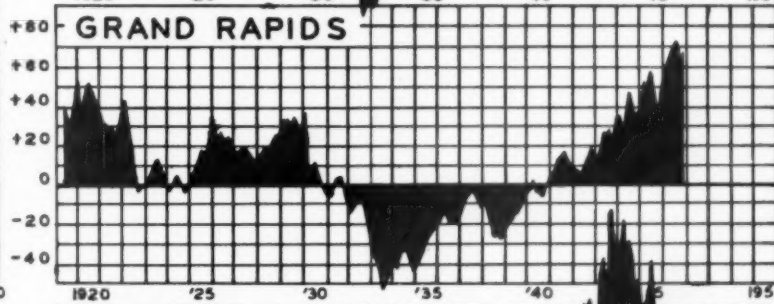
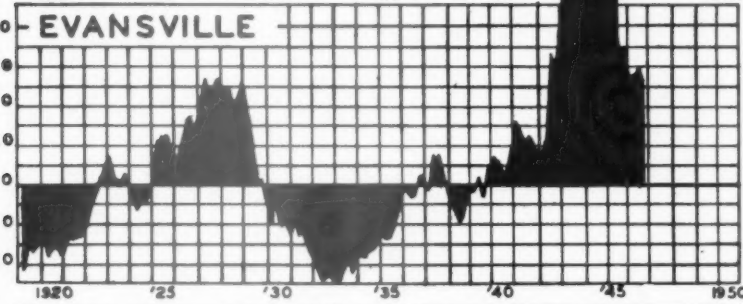
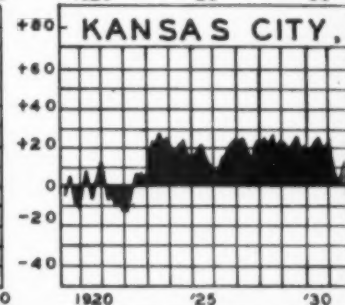
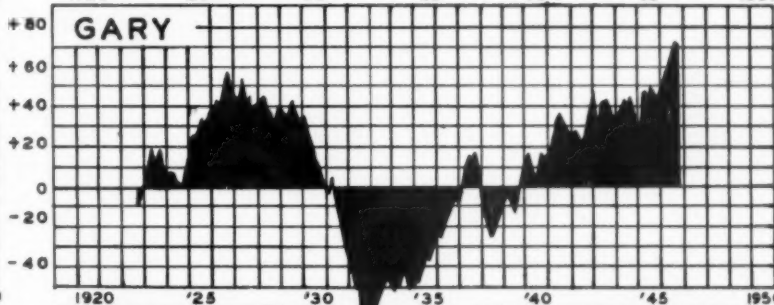
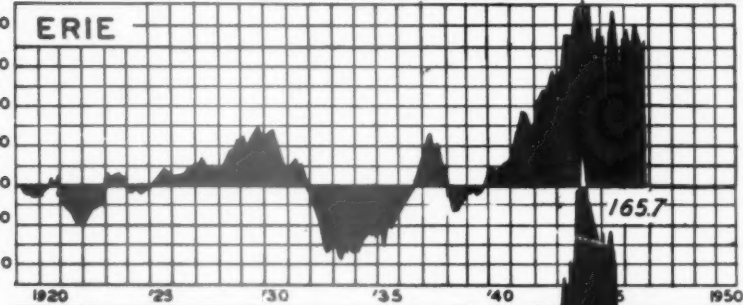
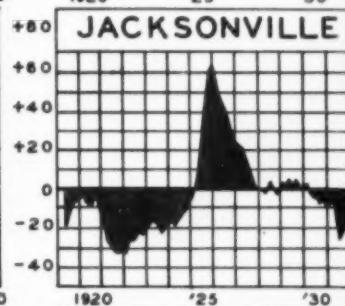
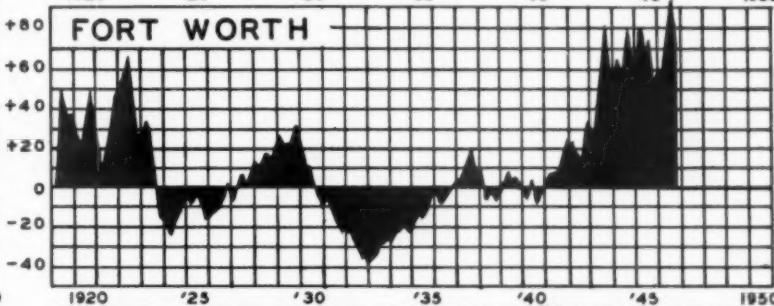
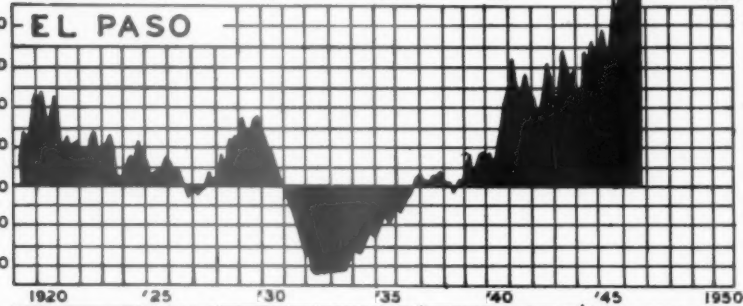
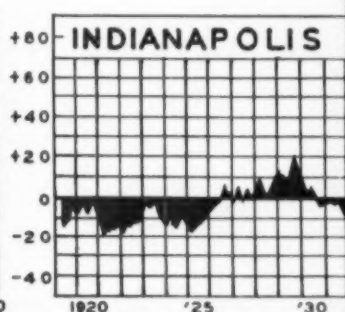
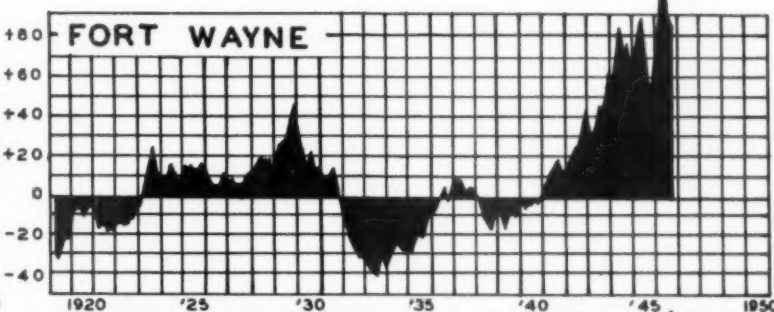
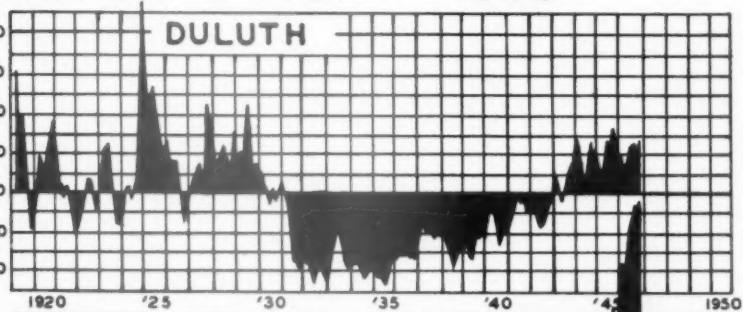
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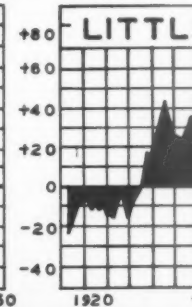
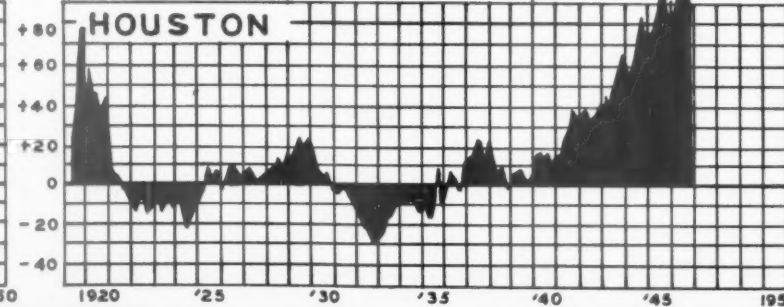
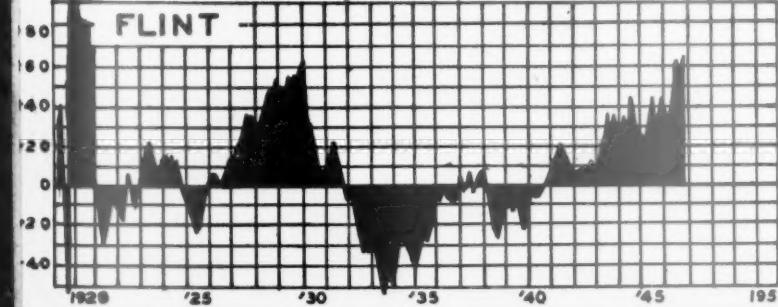
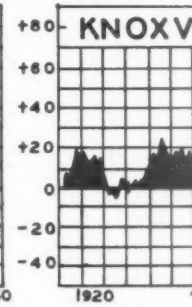
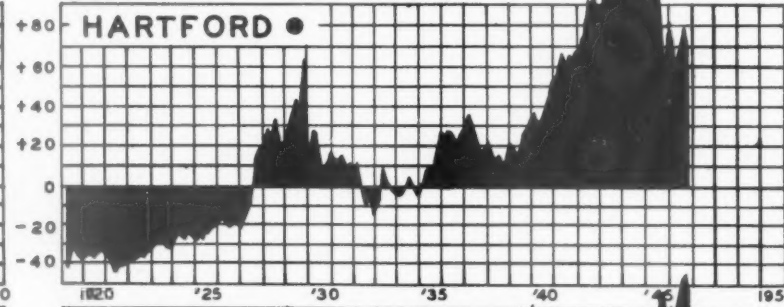
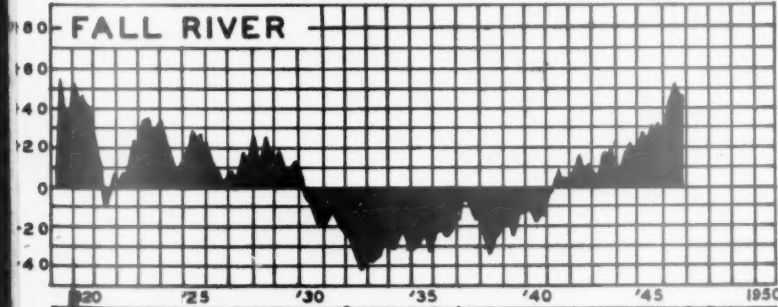
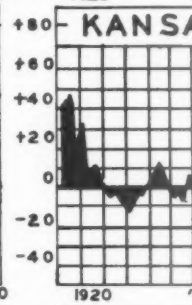
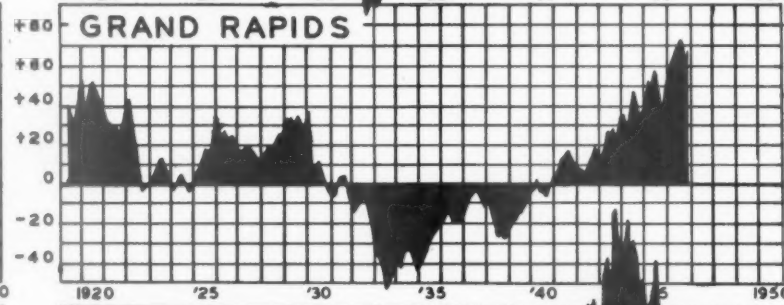
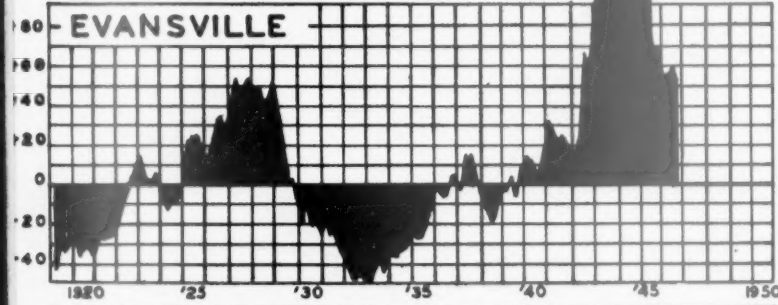
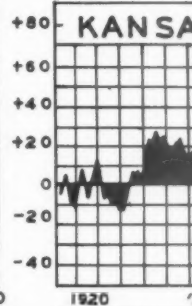
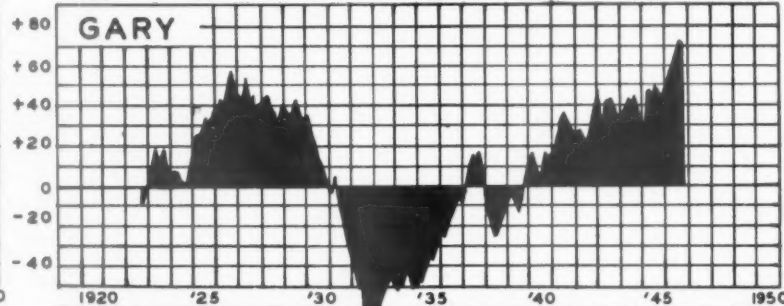
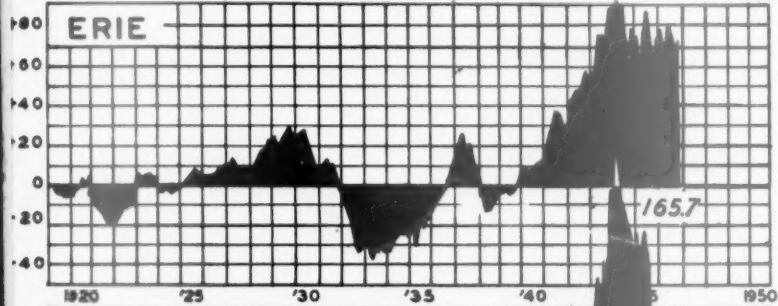
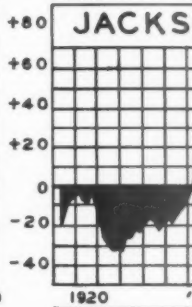
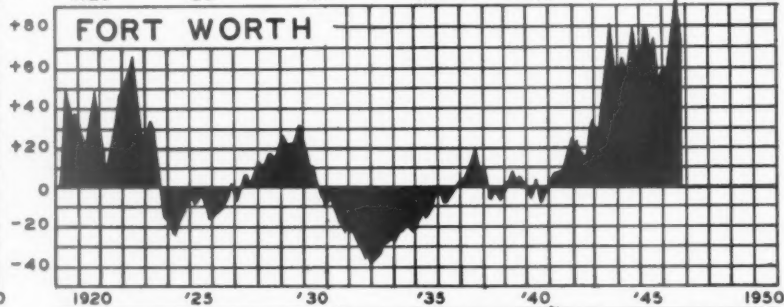
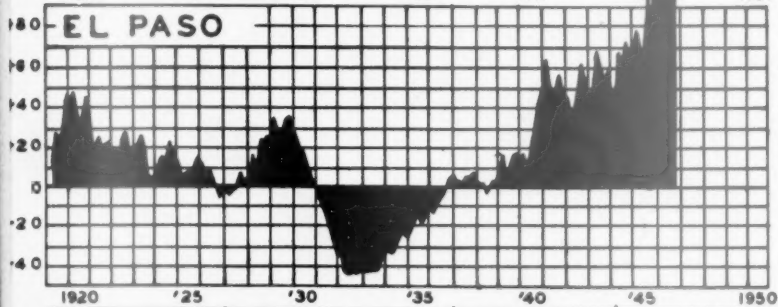
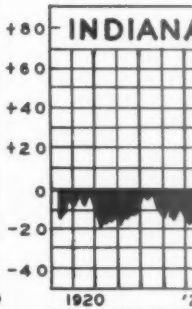
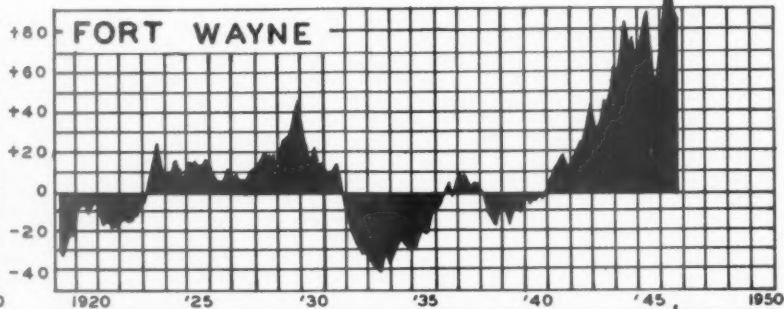
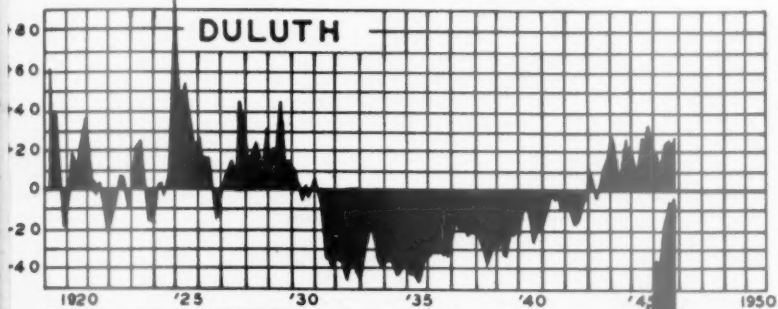
# VARIATIONS IN CHECK TRANSACTIONS IN PRINCIPAL CITIES

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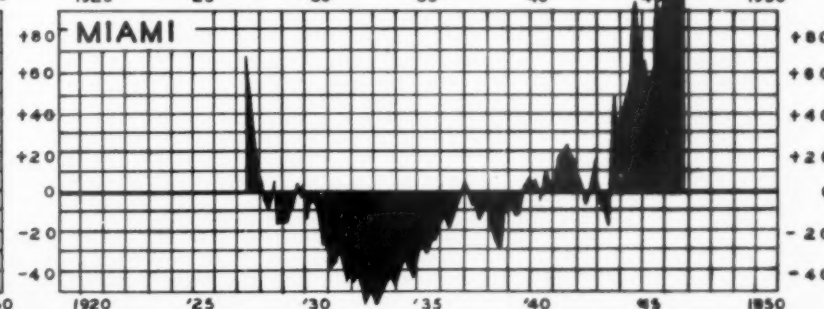
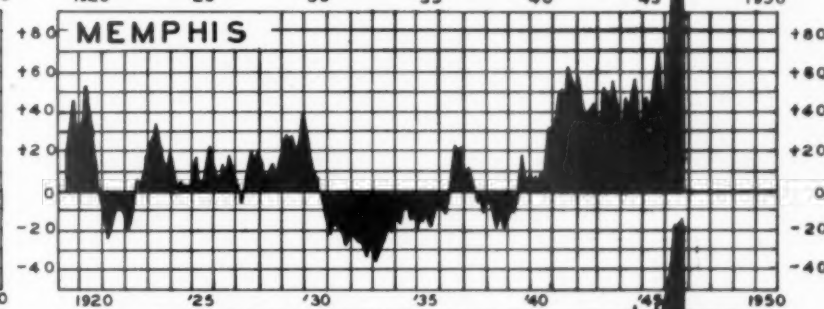
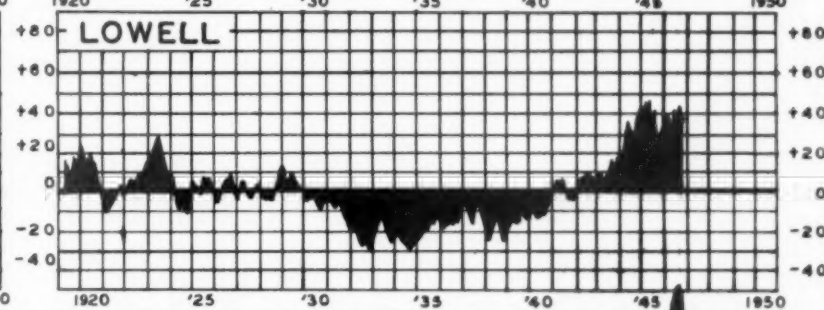
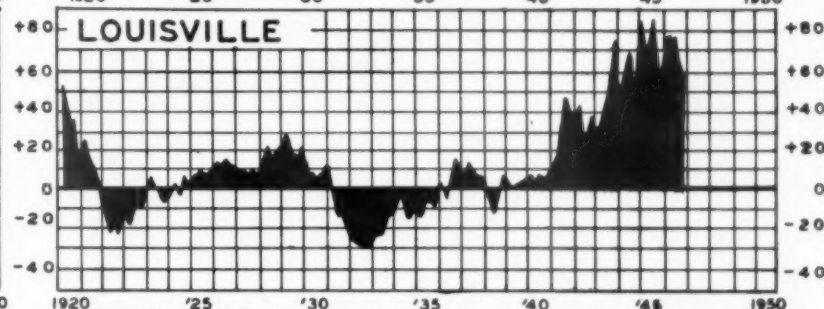
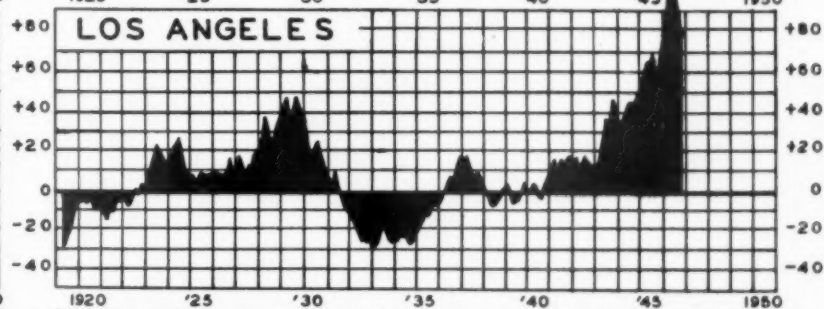
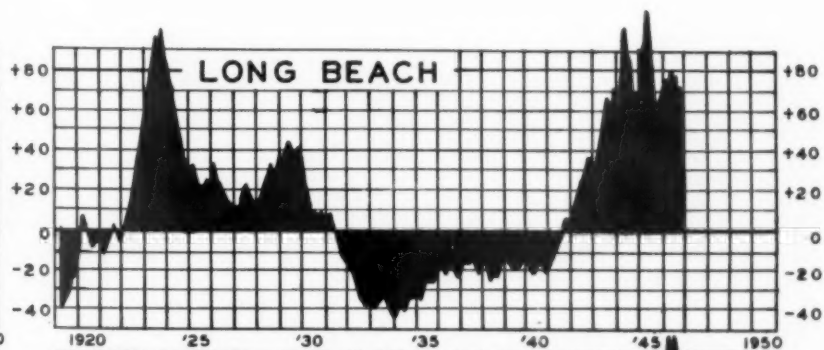
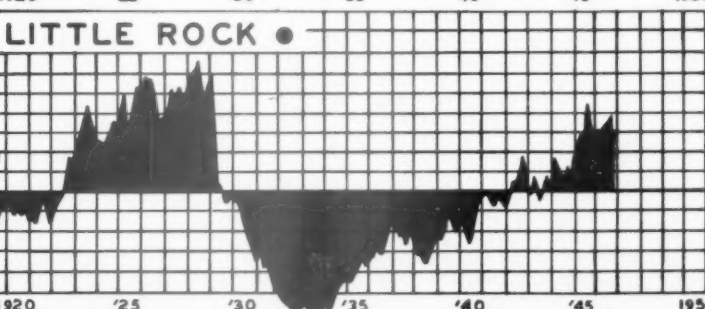
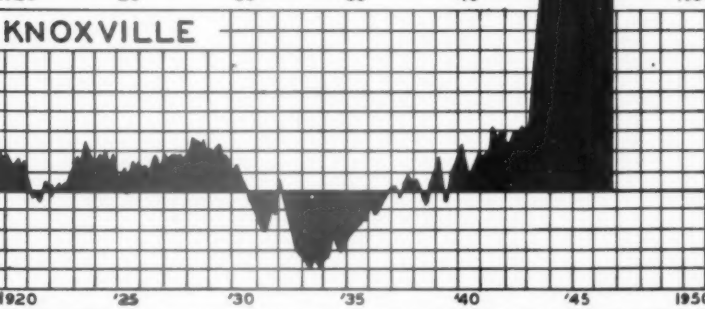
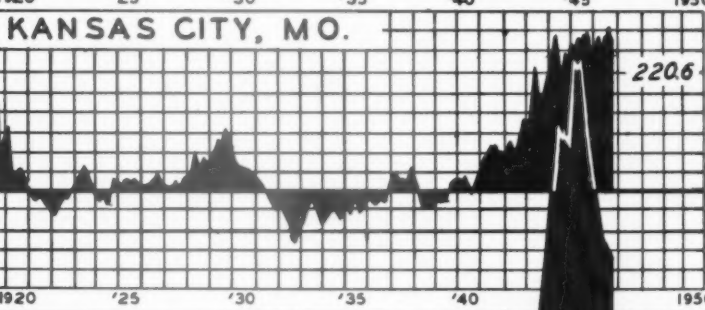
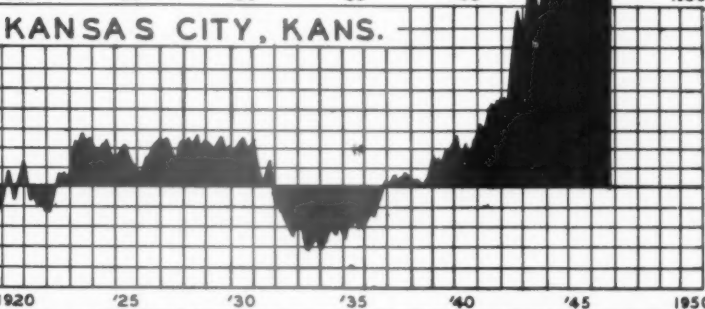
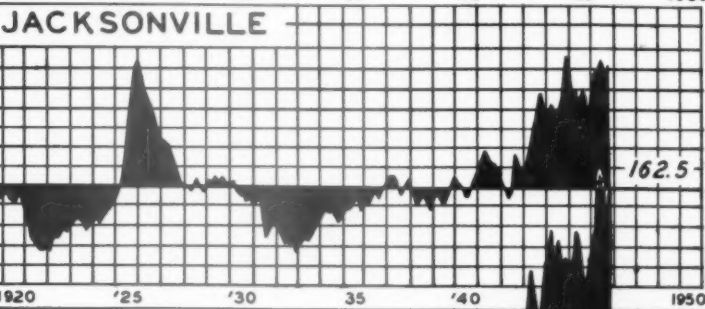
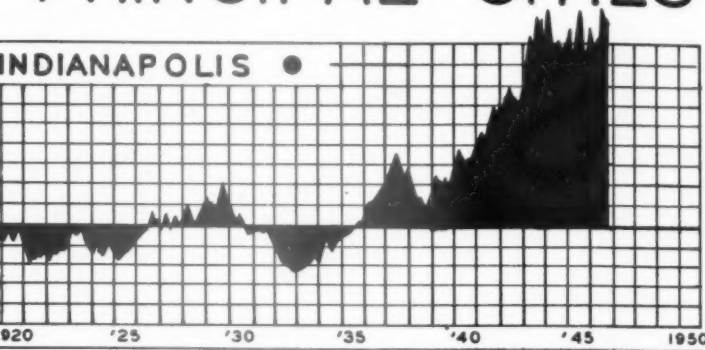


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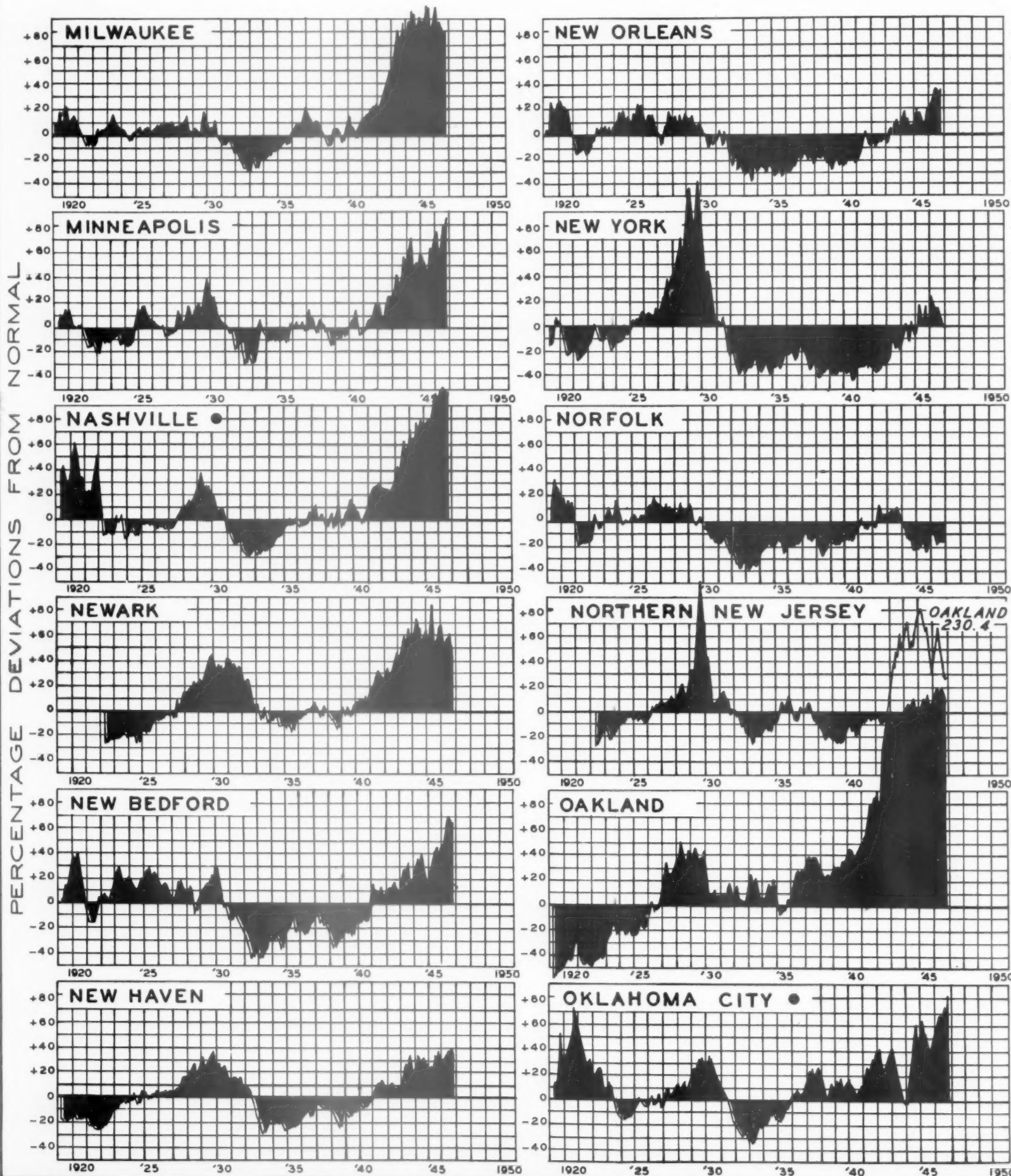


# PRINCIPAL CITIES



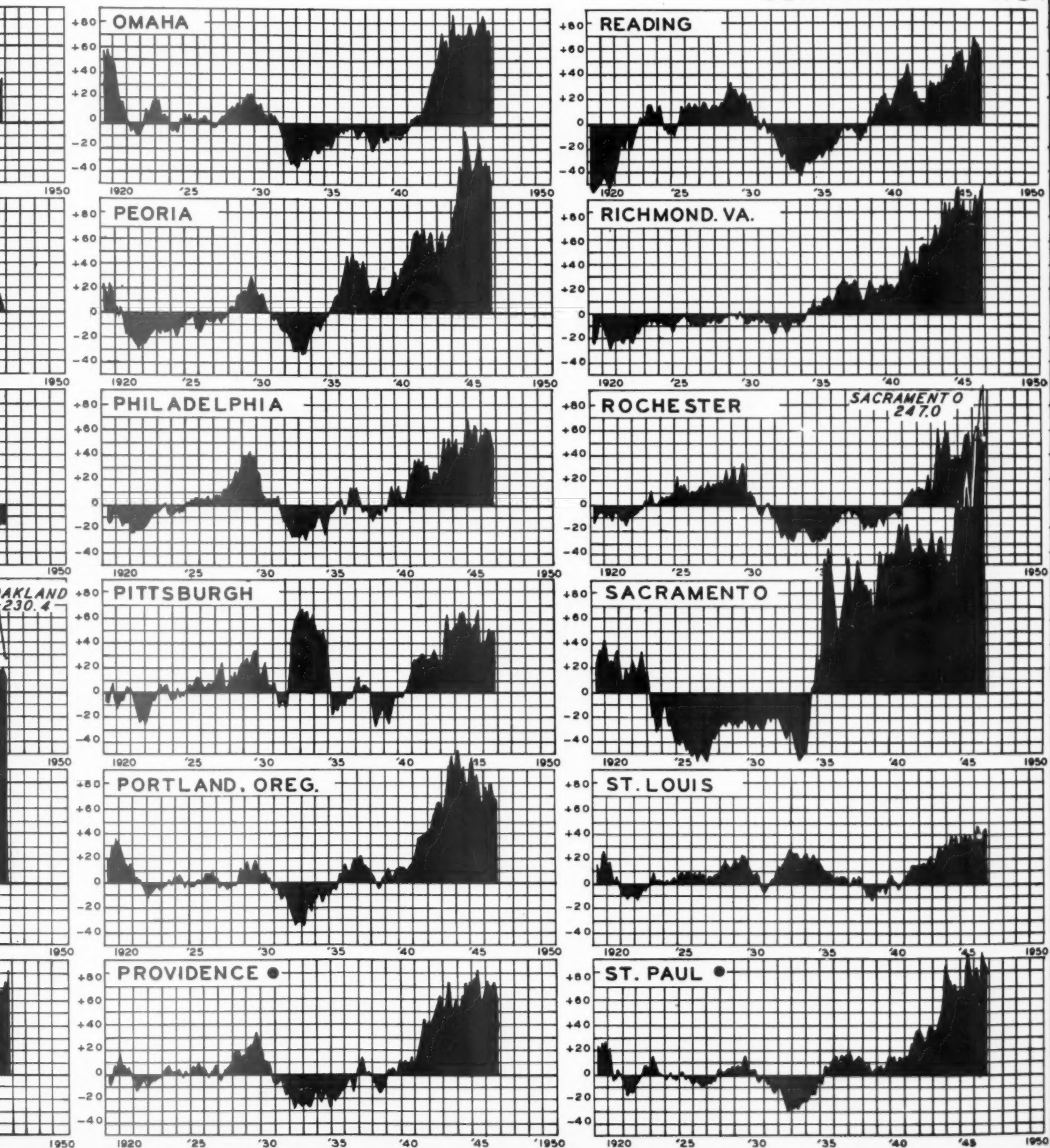
PERCENTAGE DEVIATIONS FROM NORMAL

# FLUCTUATIONS IN



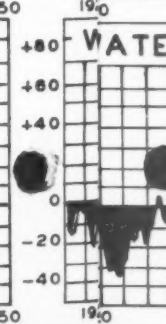
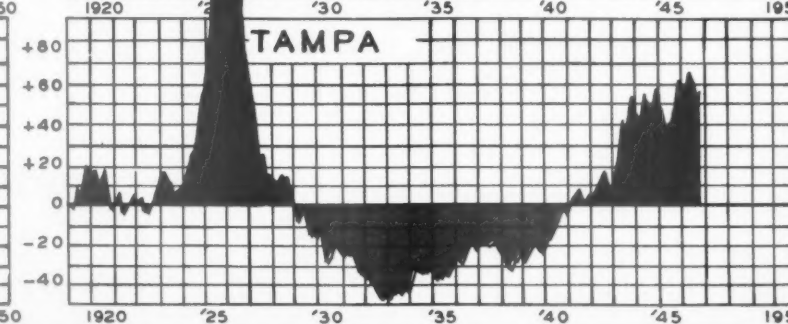
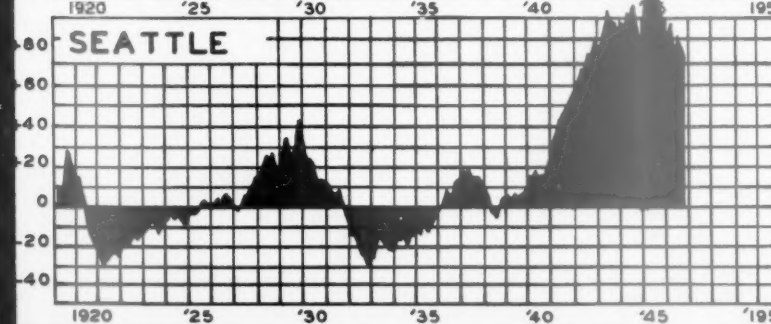
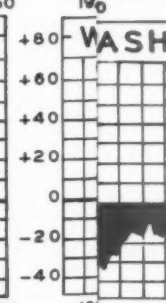
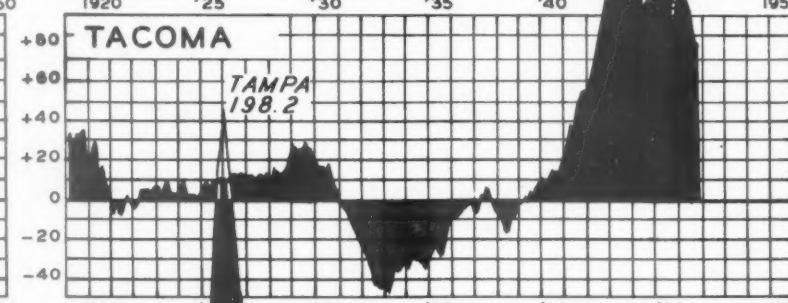
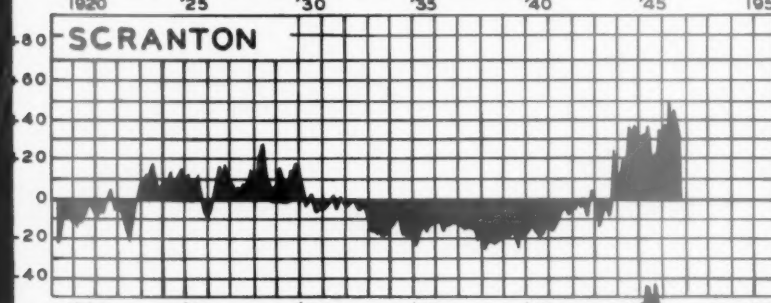
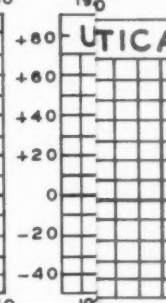
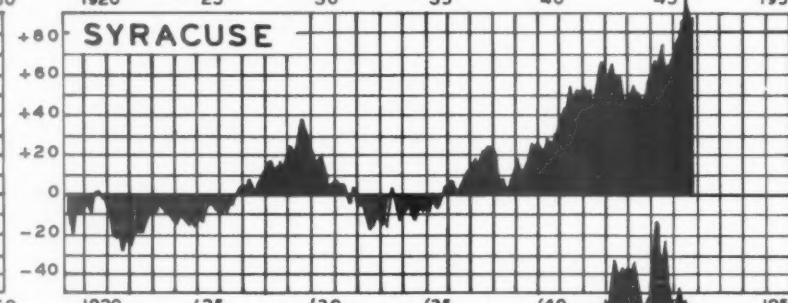
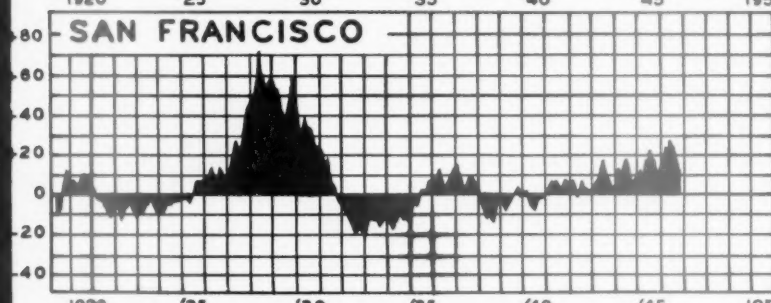
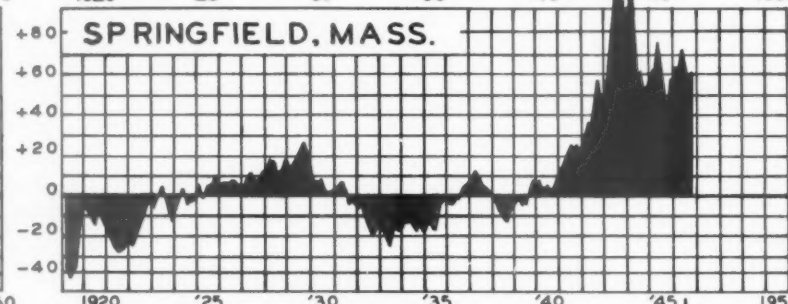
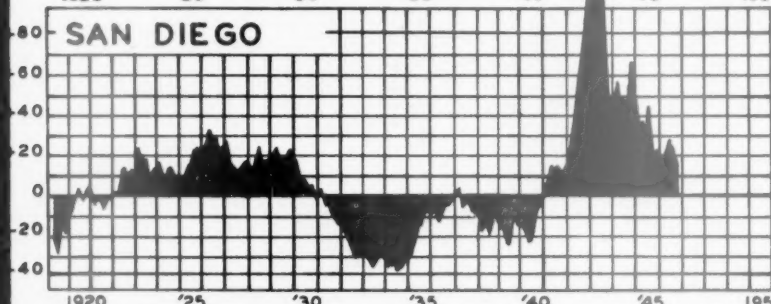
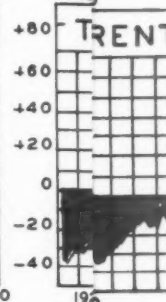
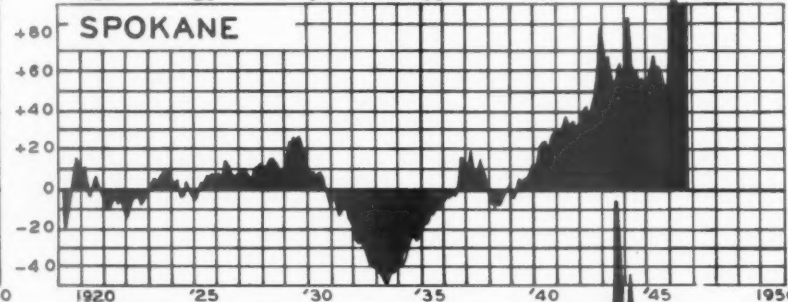
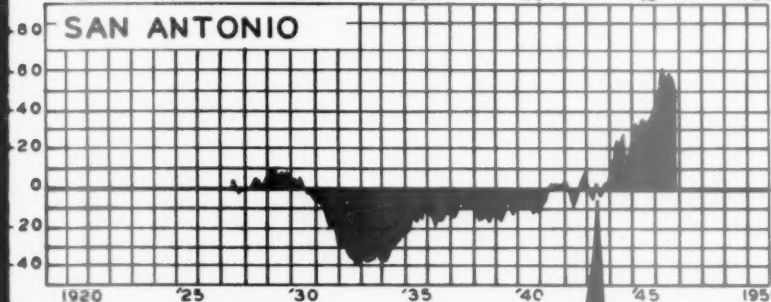
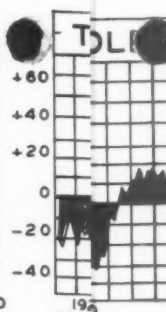
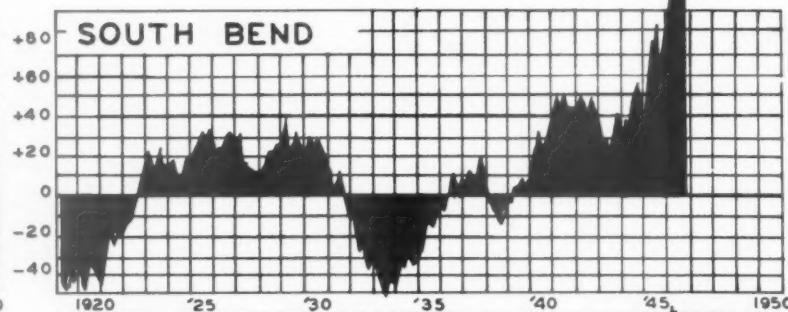
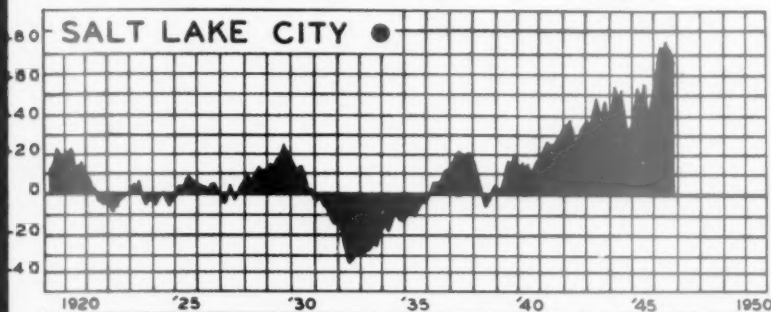
# IN BUSINESS CONDITIONS AS SHOWN BY

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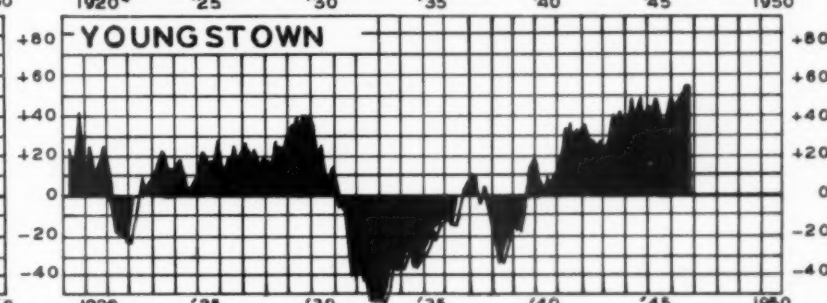
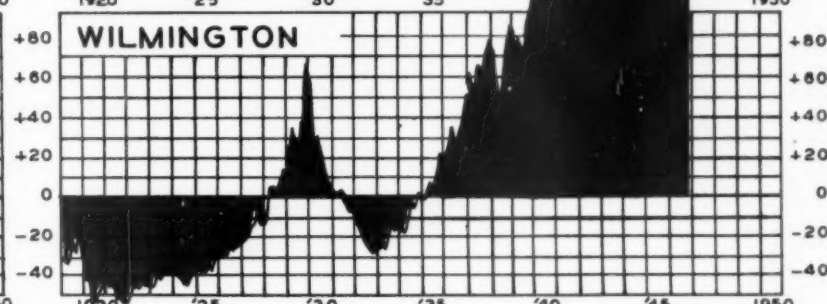
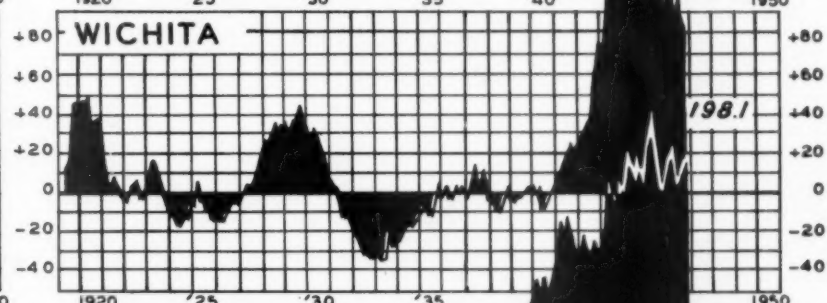
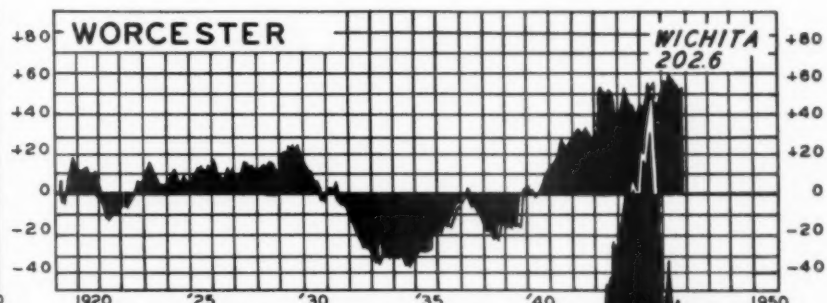
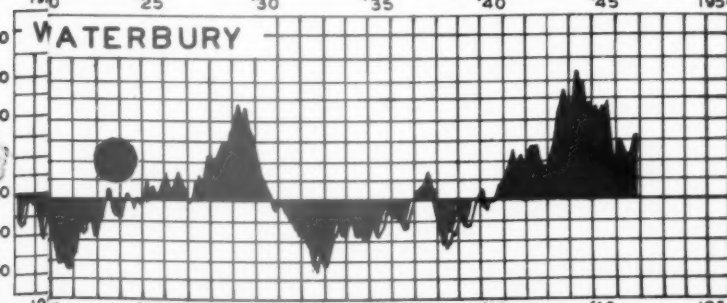
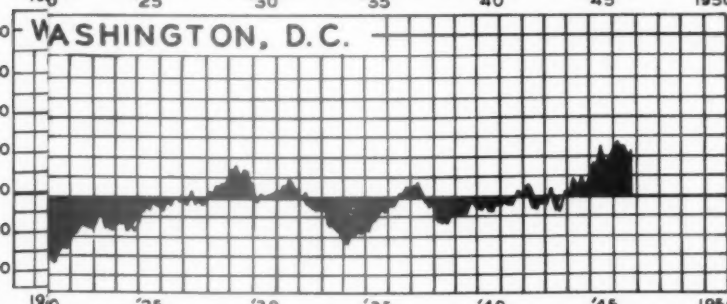
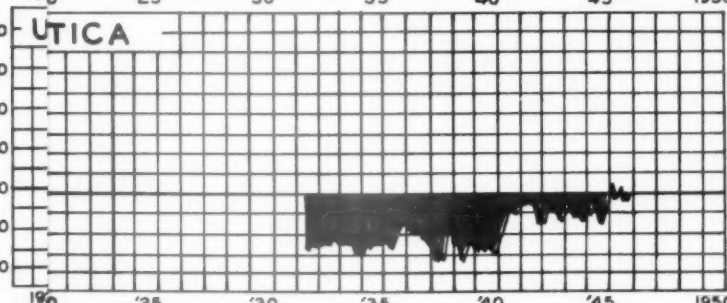
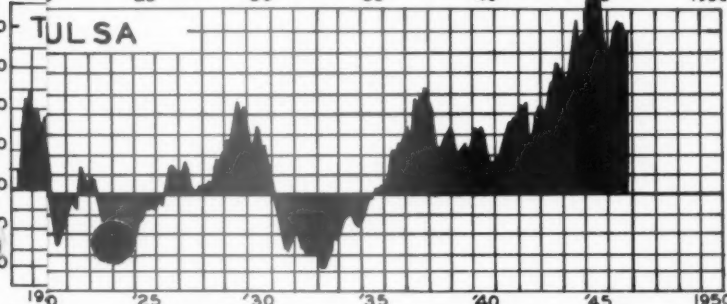
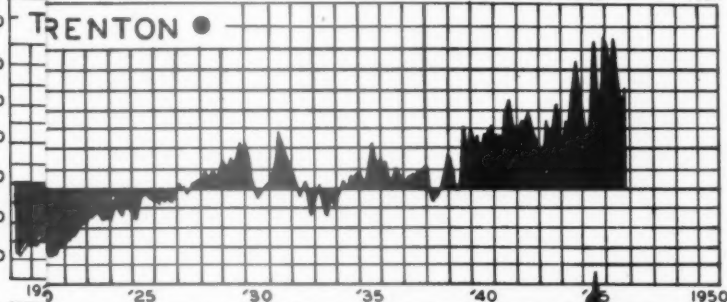
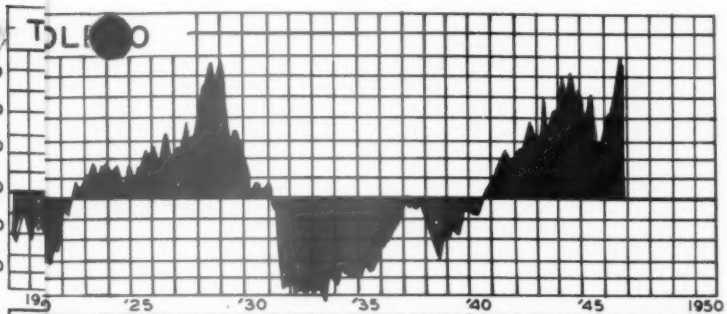


# VARIATIONS IN CHECK TRANSACTIONS IN PR

WENZLICK & CO. ~ 1946



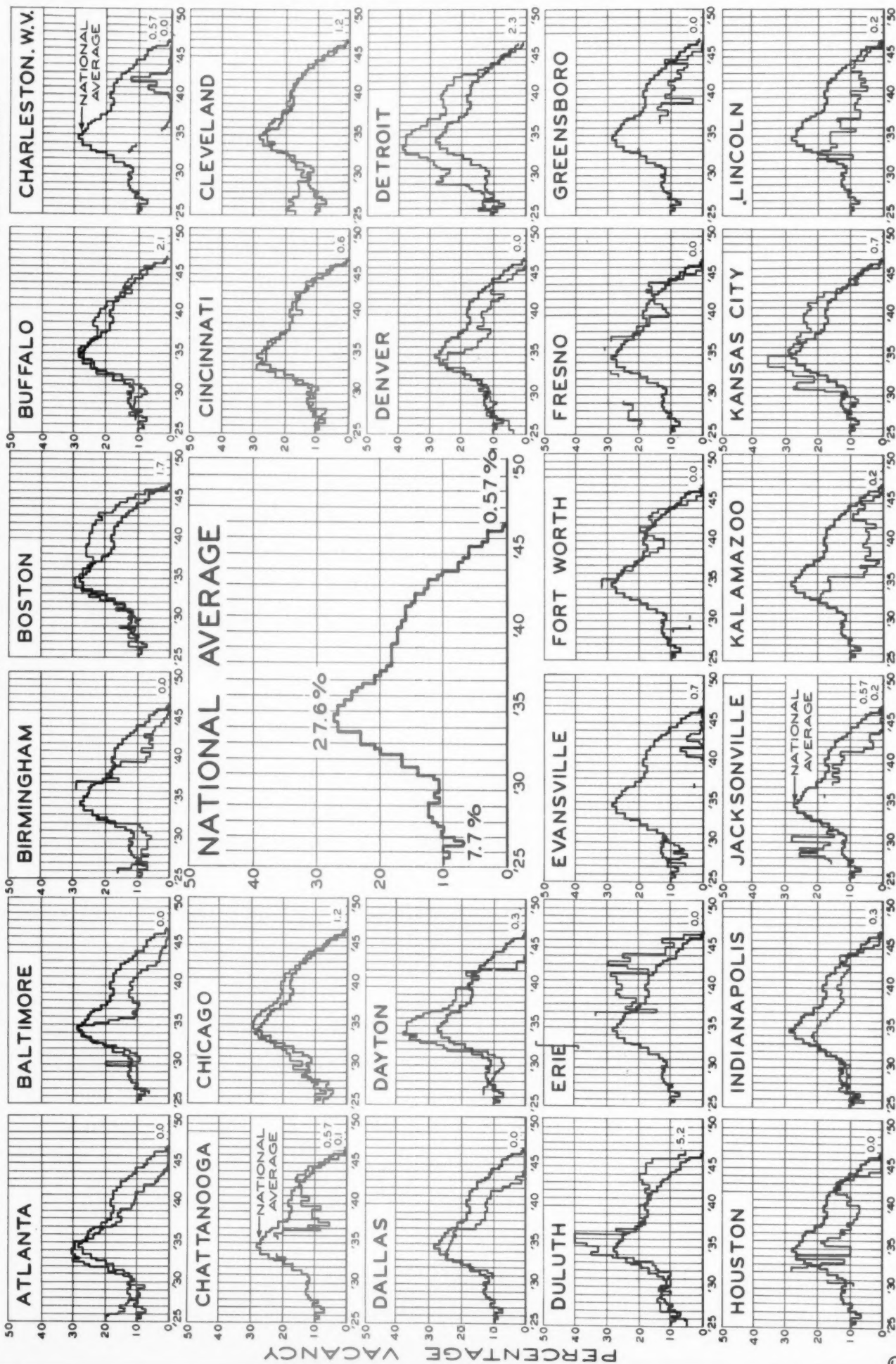
# PRINCIPAL CITIES



PERCENTAGE DEVIATIONS FROM NORMAL

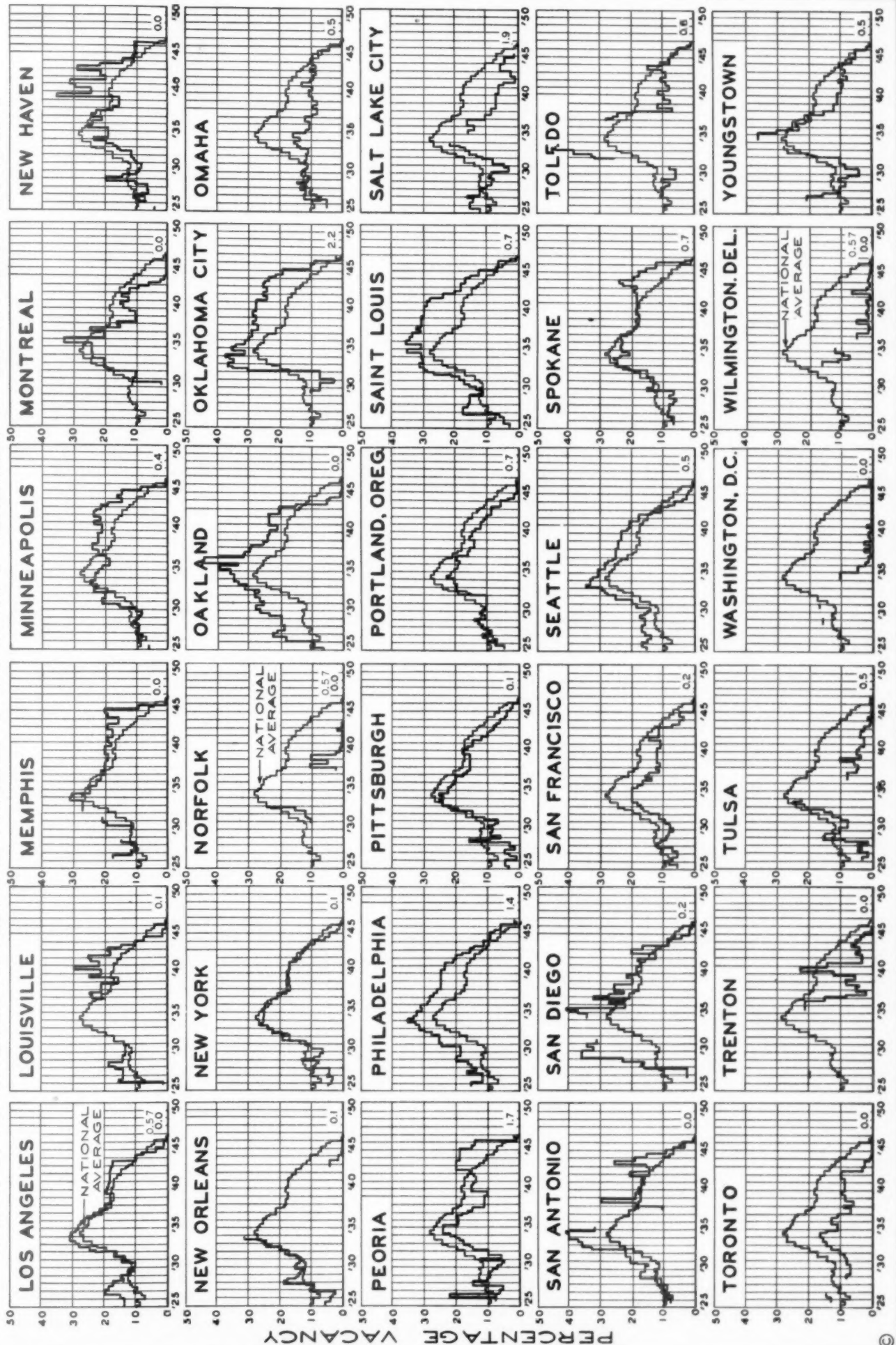
# OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



# OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



# ESTIMATED NUMBER OF NEW NONFARM DWELLING UNITS STARTED

1900 .....	240,000	1910 .....	475,000	1920 .....	247,000	1930 .....	330,000	1940 .....	602,500
1901 .....	340,000	1911 .....	480,000	1921 .....	449,000	1931 .....	254,000	1941 .....	715,200
1902 .....	360,000	1912 .....	490,000	1922 .....	716,000	1932 .....	134,000	1942 .....	496,600
1903 .....	400,000	1913 .....	455,000	1923 .....	871,000	1933 .....	93,000	1943 .....	350,000
1904 .....	440,000	1914 .....	445,000	1924 .....	893,000	1934 .....	126,000	1944 .....	169,000
1905 .....	480,000	1915 .....	475,000	1925 .....	937,000	1935 .....	221,000	1945 .....	225,300
1906 .....	480,000	1916 .....	480,000	1926 .....	849,000	1936 .....	319,000		
1907 .....	440,000	1917 .....	230,000	1927 .....	810,000	1937 .....	336,000		
1908 .....	440,000	1918 .....	120,000	1928 .....	753,000	1938 .....	406,000		
1909 .....	580,000	1919 .....	330,000	1929 .....	509,000	1939 .....	515,000		

## MONTHLY FIGURES

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1939	32,300	30,700	42,900	42,900	53,300	45,900	44,200	51,200	42,400	42,900	45,100	41,200
1940	25,700	36,900	46,000	62,900	57,000	44,100	57,600	55,800	58,400	66,200	44,900	47,000
1941	41,200	43,700	60,200	75,200	70,700	77,200	74,600	69,800	67,000	56,200	46,600	32,800
1942	34,500	51,300	52,700	59,700	60,600	46,300	26,700	27,500	40,400	32,200	30,400	34,300
1943	45,000	40,100	33,000	26,700	33,600	21,800	24,200	27,600	24,300	28,100	26,100	19,500
1944	17,300	13,500	18,100	14,300	16,500	17,500	14,500	12,800	11,300	10,800	11,600	10,800
1945	7,600	8,400	12,300	18,300	16,900	20,300	20,100	17,100	17,900	25,500	30,600	30,300
1946	40,300	48,200	67,100	76,600	73,000	72,000	79,100	69,000	61,600			

## CUMULATIVE FIGURES

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1939	32,300	63,000	105,900	148,800	202,100	248,000	292,200	343,400	385,800	428,700	473,800	515,000
1940	25,700	62,600	108,600	171,500	228,500	272,600	330,200	386,000	444,400	510,600	555,500	602,500
1941	41,200	84,900	145,100	220,300	291,000	368,200	442,800	512,600	579,600	635,800	682,400	715,200
1942	34,500	85,800	138,500	198,200	258,800	305,100	331,800	359,300	399,700	431,900	462,300	496,600
1943	45,000	85,100	118,100	144,800	178,400	200,200	224,400	252,000	276,300	304,400	330,500	350,000
1944	17,300	30,800	48,900	63,200	79,700	97,200	111,700	124,500	135,800	146,600	158,200	169,000
1945	7,600	16,000	28,300	46,600	63,500	83,800	103,900	121,000	138,900	164,400	195,000	225,300
1946	40,300	88,500	155,600	232,200	305,200	377,200	456,300	525,300	586,900			

## 12-MONTH MOVING TOTALS

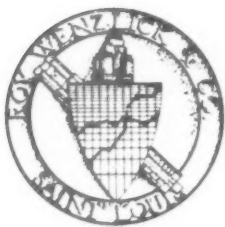
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1939												515,000
1940	508,400	514,600	517,700	537,700	541,400	539,600	553,000	557,600	573,600	596,900	596,700	602,500
1941	618,000	624,800	639,000	651,300	665,000	698,100	715,100	729,100	737,700	727,700	729,400	715,200
1942	708,500	716,100	708,600	693,100	683,000	652,100	604,200	561,900	535,300	511,300	495,100	496,600
1943	507,100	495,900	476,200	443,200	416,200	391,700	389,200	389,300	373,200	369,100	364,800	350,000
1944	322,300	295,700	280,800	268,400	251,300	247,000	237,300	222,500	209,500	192,200	177,700	169,000
1945	159,300	154,200	148,400	152,400	152,800	155,600	161,200	165,500	172,100	186,800	205,800	225,300
1946	258,000	297,800	352,600	410,900	467,000	518,700	577,700	629,600	673,300			

# ESTIMATED NUMBER OF NEW NONFARM DWELLING UNITS COMPLETED

## NEW PERMANENT UNITS

## TEMPORARY RE-USE, CONVERSIONS AND TRAILERS

Monthly				Cumulative			Monthly		Cumulative		
Factory-Built				Factory-Built							
1946	Conventional	Built	Total	Conventional	Built	Total					
Jan.	17,500	1,200	18,700	17,500	1,200	18,700	10,100		10,100		
Feb.	18,700	1,600	20,300	36,200	2,800	39,000	9,400		19,500		
Mar.	20,400	2,200	22,600	56,600	5,000	61,600	10,800		30,300		
Apr.	23,800	2,600	26,400	80,400	7,600	88,000	12,000		42,300		
May	27,300	3,000	30,300	107,700	10,600	118,300	13,500		55,800		
June	31,600	3,300	34,900	139,300	13,900	153,200	16,800		72,600		
July	37,200	3,800	41,000	176,500	17,700	194,200	20,400		93,000		
Aug.	38,500	3,700	42,200	215,000	21,400	236,400	20,600		113,600		
Sept.	46,300	3,500	49,800	261,300	24,900	286,200	30,400		144,000		



# The Real Estate TRENDS

NOVEMBER 30  
1946

A concise monthly digest of real estate and construction fundamentals and trends.....A part of the complete service known as the Real Estate Analyst Reports.

VOLUME XV

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

## CONSTRUCTION COSTS

The most significant development during the past month was the rapid increase in the legal cost of building the six-room standard frame house in St. Louis. In October the cost was \$10,532; in November it has risen to \$11,205. This increase, however, is not so great as it appears. Of the \$673 increase, \$472, or 70 per cent of it, occurred in unfinished lumber, finished lumber and millwork. The lumber field was the one, of course, in which the greatest black market operations have been carried on. In view of the fact that we estimated a few months ago that if materials for our house were purchased in the black market the price would be \$1,000 over the price given, it seems that the elimination of price controls has not had too great an effect on the finished price of the house.

In the Executive Digest of July 31, 1946, we said that it seemed to us that construction costs would probably reach their peak in 1947 and that this peak would at least equal \$11,500 for our house in St. Louis. At the time this was written, the cost of building the house was \$10,156. Of the 13 per cent increase we forecast then, 11 per cent has already been realized. It seems to us, however, that we are rather close to the top and it may be that we will not go above the \$11,500 cost next spring. We are expecting that building costs will start to drop before next year is over.

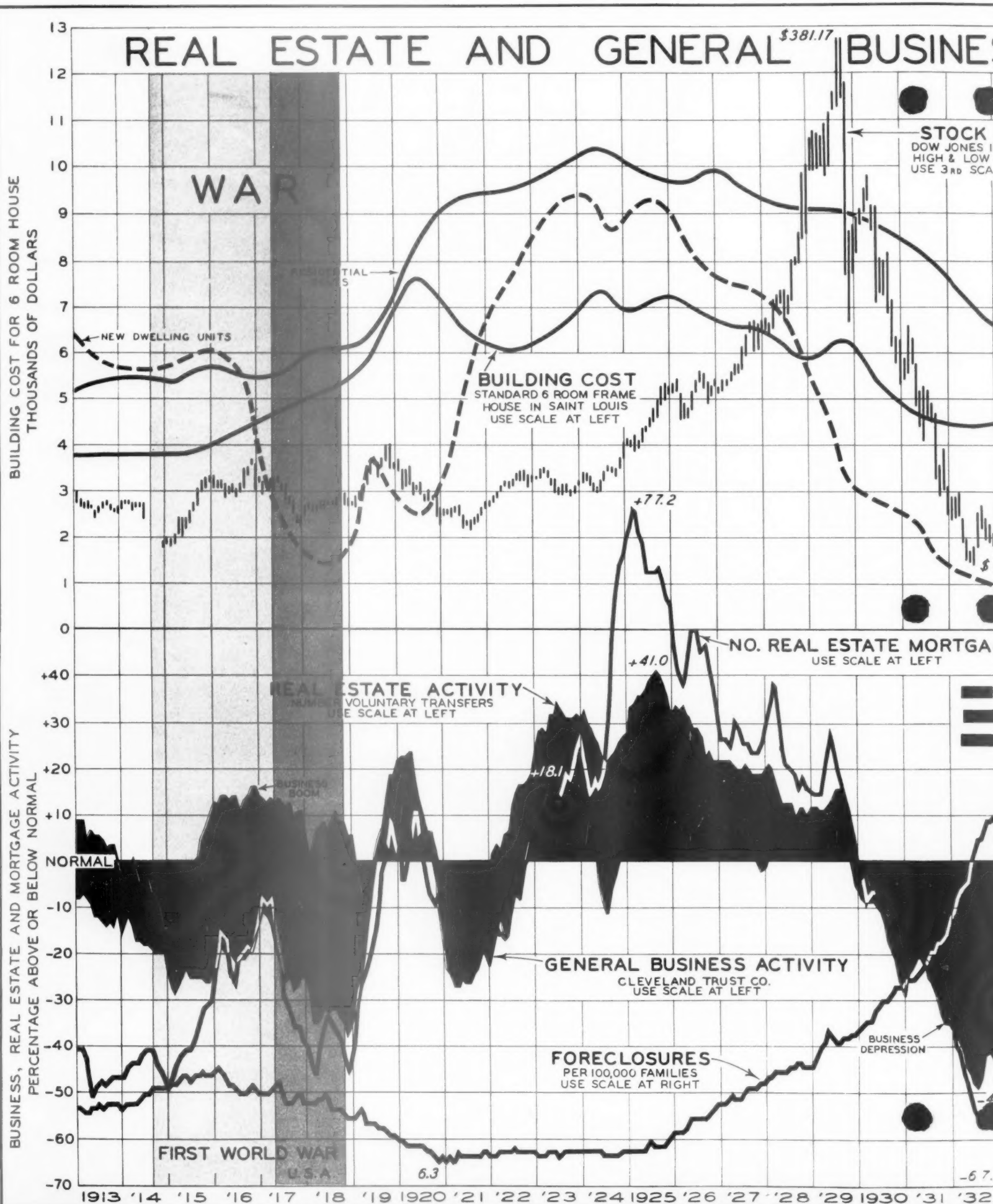
## REAL ESTATE ACTIVITY

The preliminary figure for real estate activity for October, the last month for which figures can be compiled, was 68.6 per cent above the long-term computed normal.

The table on the following page shows the index numbers of real estate activity from January 1936 through October 1946. Although activity at the present time is more than 20 per cent below the peak, it is still 67 per cent above the highest point reached at any time during the real estate boom of the twenties.

We think that this index of real estate activity will continue to decline in November and December, and probably during the early months of next year. The various shocks which business is getting primarily in the field of labor relations will make the general public far more cautious in buying on an inflated market than it would otherwise be.

From the long-term standpoint a reduction in real estate activity at the present time is a good thing. The fewer sales made at the badly inflated prices which



# BUSINESS INDICATORS

ROY WENZLICK & CO.  
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS  
SAINT LOUIS

STOCK PRICES  
DOW JONES INDUSTRIALS  
HIGH & LOW FOR MONTH  
USE 3RD SCALE AT RIGHT

RESIDENTIAL RENTS  
1923=100  
USE 1ST SCALE AT RIGHT

WAR

BUILDING COST

STOCK PRICES

NO. NEW DWELLING UNITS  
BUILT PER YEAR PER 1,000 FAMILIES  
NON-FARM  
USE 2ND SCALE AT RIGHT

MORTGAGES  
LEFT

- REAL ESTATE ACTIVITY
- BUSINESS ACTIVITY
- REAL ESTATE & BUSINESS ACTIVITY OVERLAPPING

84.6

-49.2  
-48.5

REAL ESTATE  
MORTGAGES

REAL ESTATE  
ACTIVITY

SECOND WORLD WAR

U.S.A.

\$11,205

75.7

\$175.94  
\$163.12

21.5

+26.3

+68.6

+20.3

+20.4

-67.7

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3.0

13065 390  
12060 360  
11055 330  
10050 300  
9045 270  
8040 240  
7035 210  
6030 180  
5025 150  
4020 120  
3015 90  
2010 60  
105 30  
000  
110  
100  
90  
80  
70  
60  
50  
40  
30  
20  
10  
0

FORECLOSURES PER 100,000 FAMILIES

31 '32 '33 '34 1935 '36 '37 '38 '39 1940 '41 '42 '43 '44 1945 '46 '47 '48 '49 1950

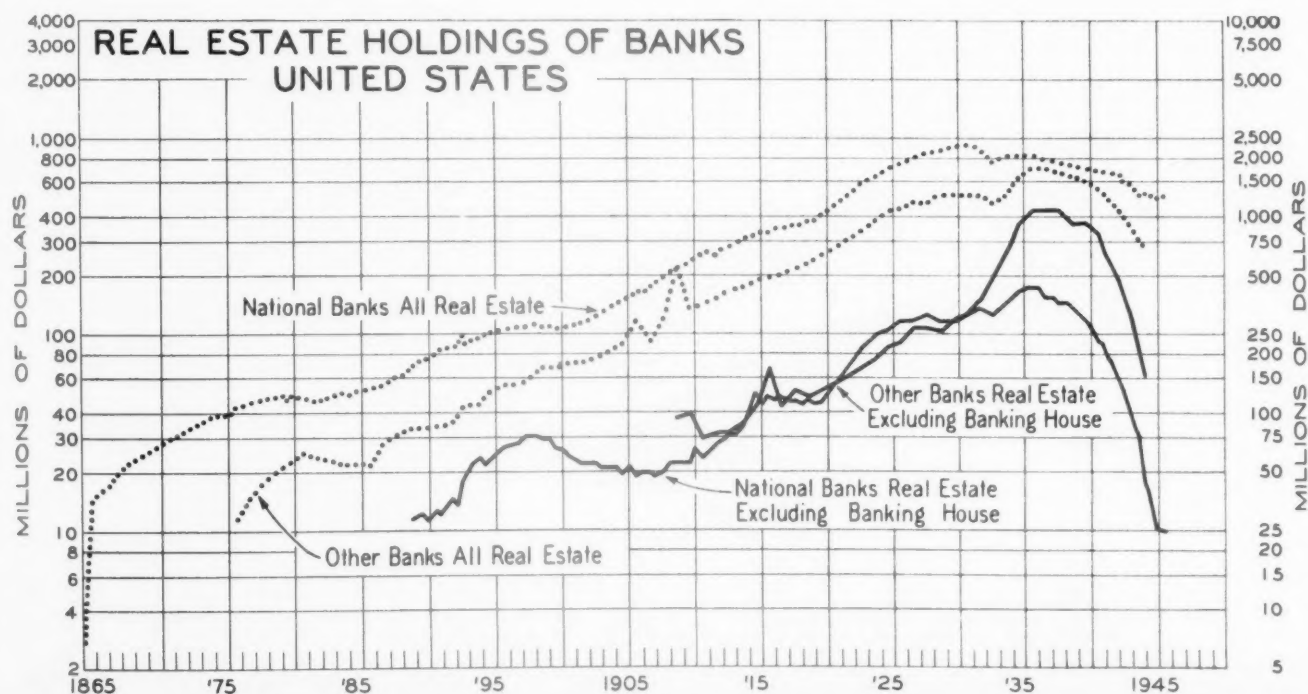
# ESTIMATED NUMBER OF NEW NONFARM DWELLING UNITS COMPLETED

## MONTHLY FIGURES

1946	NEW PERMANENT UNITS			TEMPORARY RE-USE CONVERSION TRAILERS
	Conventional	Factory-Built	Total	Total
Jan.	17,500	1,200	18,700	10,100
Feb.	18,700	1,600	20,300	9,400
Mar.	20,400	2,200	22,600	10,800
Apr.	23,800	2,600	26,400	12,000
May	27,300	3,000	30,300	13,500
June	31,600	3,300	34,900	16,800
July	37,200	3,800	41,000	20,400
Aug.	38,500	3,700	42,200	20,600
Sept.	46,300	3,500	49,800	30,400

## CUMULATIVE FIGURES

1946				
Jan.	17,500	1,200	18,700	10,100
Feb.	36,200	2,800	39,000	19,500
Mar.	56,600	5,000	61,600	30,300
Apr.	80,400	7,600	88,000	42,300
May	107,700	10,600	118,300	55,800
June	139,300	13,900	153,200	72,600
July	176,500	17,700	194,200	93,000
Aug.	215,000	21,400	236,400	113,600
Sept.	261,300	24,900	286,200	144,000





# INDEXES OF REAL ESTATE ACTIVITY - 1936 THROUGH OCTOBER 1946

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1936	-31.7	-32.9	-32.3	-31.7	-27.4	-23.6	-21.3	-20.7	-19.3	-19.3	-18.1	-14.4
1937	-18.7	-18.7	-18.0	-10.9	- 8.2	- 7.4	-10.9	- 9.3	-15.4	-18.2	-19.0	-19.9
1938	-24.2	-27.0	-28.2	-26.4	-27.9	-30.0	-29.4	-26.7	-25.0	-24.4	-23.5	-23.4
1939	-22.5	-22.4	-21.2	-22.1	-20.4	-20.4	-17.5	-16.9	-16.3	-16.4	-14.5	-14.1
1940	-14.7	-15.0	-16.1	-13.7	-11.5	-11.2	-10.1	- 9.7	- 8.0	- 7.5	- 9.8	-10.7
1941	- 8.3	- 4.2	- 1.2	- 1.2	- 1.1	- 0.7	+ 0.3	+ 1.2	+ 3.5	+ 5.3	+ 1.6	+ 0.8
1942	- 3.3	- 2.9	- 7.2	- 9.5	-12.5	-14.5	-15.0	-15.3	-12.3	-10.3	-11.6	-16.4
1943	-21.8	-22.4	-21.2	-16.1	-14.0	-11.4	- 9.4	- 3.5	+ 1.3	+ 2.8	+ 4.6	+ 3.6
1944	+ 4.4	+ 6.1	+ 7.7	+ 9.2	+ 7.8	+10.5	+12.5	+15.5	+16.8	+20.0	+19.7	+17.0
1945	+17.9	+19.0	+23.8	+24.4	+24.5	+24.9	+24.8	+24.6	+20.6	+25.1	+36.0	+43.6
1946	+59.7	+70.1	+84.3	+85.5	+86.3	+82.8	+78.7	+76.0	+74.4	+68.6		

have been current, the fewer foreclosures we will experience in the next big depression. Mortgage lenders should move with extreme caution in the period ahead or they will find a few years from now that the selling prices of single-family homes may not equal the amount still owed on the mortgage. Real estate brokers should use all of their salesmanship to secure listings at a reasonable price rather than to sell houses at a price which will almost certainly bring foreclosure in the readjustment period which is bound to follow.

**REAL ESTATE MORTGAGES** Real estate mortgage activity dropped for the third consecutive month. Until this drop started, every month since January of 1945 had shown an increase. At the present time mortgage activity is 20.3 per cent above the long-term computed normal. A month ago it was 25 per cent above. It is entirely possible that it will continue to drop during the balance of 1946 and possibly even the early part of 1947, as mortgage volume depends on new construction and on the volume of transfers of existing properties.

**FORECLOSURES** The table below shows the urban foreclosure rate for selected periods in the past in comparison with the present. It will be noticed how favorably the present low rate compares with past lows and highs. The lowest foreclosure rate during the boom of the twenties was 6.3 foreclosures per hundred thousand families. The highest rate during the depression of the thirties was 84.6. The preliminary figure for this last month is 3.0.

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1920	10.0	8.9	8.8	8.7	9.1	8.9	8.2	7.6	6.8	6.3	6.6	6.3
1921	6.6	6.4	7.5	6.6	6.7	7.2	6.8	6.9	7.2	8.0	7.8	7.4
1922	7.3	8.0	7.9	8.0	7.9	8.5	8.0	7.9	8.0	8.1	8.2	7.5
1932	61.8	64.4	65.0	66.1	68.8	72.1	74.6	75.5	78.8	78.5	80.0	79.0
1933	82.0	84.6	82.0	76.0	73.6	76.9	81.0	79.8	74.8	72.5	71.4	73.2
1934	73.2	71.9	70.0	69.5	69.2	68.5	69.5	69.2	71.4	72.7	76.0	75.5
1943	9.0	8.7	7.8	7.3	7.6	7.0	6.6	6.1	6.4	5.7	5.9	5.6
1944	4.8	5.7	5.2	4.1	4.5	4.7	4.2	4.0	4.6	4.2	4.7	4.5
1945	3.8	4.7	4.5	3.8	3.8	4.1	3.4	3.7	3.5	3.4	3.7	3.3
1946	3.6	3.2	3.4	3.1	2.9	2.8	2.6	2.8	2.9	3.0		

It seems to us that before any drastic depression sets in, foreclosures will rise month after month at a steady rate. This has not yet occurred and is another reason for believing that the business readjustment in 1947 will be mild rather than severe.

#### RESIDENTIAL BUILDING

Most figures quoted are on the number of building permits issued or else on the number of contracts let. In ordinary times, figures of this sort have been of great value because in almost all cases a contract or a permit meant a new building within a reasonable period. This is no longer the case and, for that reason, the table on page 370 is of particular interest. This table shows the number of new dwelling units completed during the months of 1946. Many of the buildings now being completed were started in 1945 and, in a few cases, in 1944. Many of the buildings for which permits have been taken out in 1946 remain uncompleted for lack of some essential material.

The showing of prefabricated building for the year is much below the expectations of the Housing Expediter. His program called for 250,000 prefabricated units this year. This was later cut to 100,000. It will be noticed that through September only 24,900 units have been completed, with the possibility that the last three months could not carry the annual total much above 36,000 or 37,000. The August and September figures showed a decrease over the high point in July, while conventional housing has been going forward each month. For the long pull, however, prefabricated housing will show considerable gain, with a much better showing in 1947 than in 1946.

#### RENTS

We believe that a modification of rent control has now become a distinct probability and that by spring Congress will have passed some sort of corrective provision. Unless rent control is modified, new building in 1947 will not be nearly so great as most people anticipate.

#### BUSINESS ACTIVITY

General business has moved sideways in the recent past but, because of the coal strike, the next figures will probably show a sizable drop. Until the epidemic of strikes can be halted, little permanent recovery can be expected in general business. It looks as if any depression occurring in 1947 could be correctly labeled "the labor union officials depression."

#### STOCK MARKET

We still doubt whether the stock market has reached its low, although the longer the present sideways movement continues, the greater probability there is that it will break out of its trend on the up side rather than on the down side. It still seems too early, however, to expect a sizable upward movement other than a secondary reaction from the extreme drops we have had. The market still seems to be a good place to stay out of.





# APPRAISAL BULLETIN

PUBLISHED IN THE INTERESTS OF REAL ESTATE ANALYST SUBSCRIBERS BY

ROY WENZLICK & CO.

*Real Estate Economists, Appraisers and Counselors*

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VOLUME XV

## THE BUYER IN A SELLER'S MARKET

**T**HE chart on page 2 has been prepared to show the actual changes in the value and market value of the standard six-room frame house from 1938 to date and the estimated changes which will probably occur from the present time to July 1955.

The value of the six-room frame house from 1938 to date has been estimated by adding to the value of a fifty-foot lot the cost of building the six-room standard frame house estimated each month and published by Roy Wenzlick & Co. as a part of its services. This house has been estimated with great care; in fact, prices on all materials entering into it are secured monthly from reliable local material dealers, and local wage rates of the various classes of labor are secured from contractors engaged in small home construction.

The market value shown on the chart was determined by finding the percentage relationship existing between value and market value of the many single-family properties we appraise in the minor appraisal department of our extensive practice. For many years we have not only appraised the value of the house for loan purposes, but have secured the price at which the property was selling in the St. Louis market, if such information was available. From these data on hundreds of properties we have been able to find the surplus discount that existed in 1938 and the present scarcity premium which has existed during the past three years and which is still an important factor in the sale of residential properties.

We consider the value line, which includes the price of a 50-foot lot costing \$1,500 and the cost of building the standard six-room frame house published by Roy Wenzlick & Co., to be reasonably accurate; likewise, we consider the market value of the house from 1938 to date to be reasonably accurate for the St. Louis area.

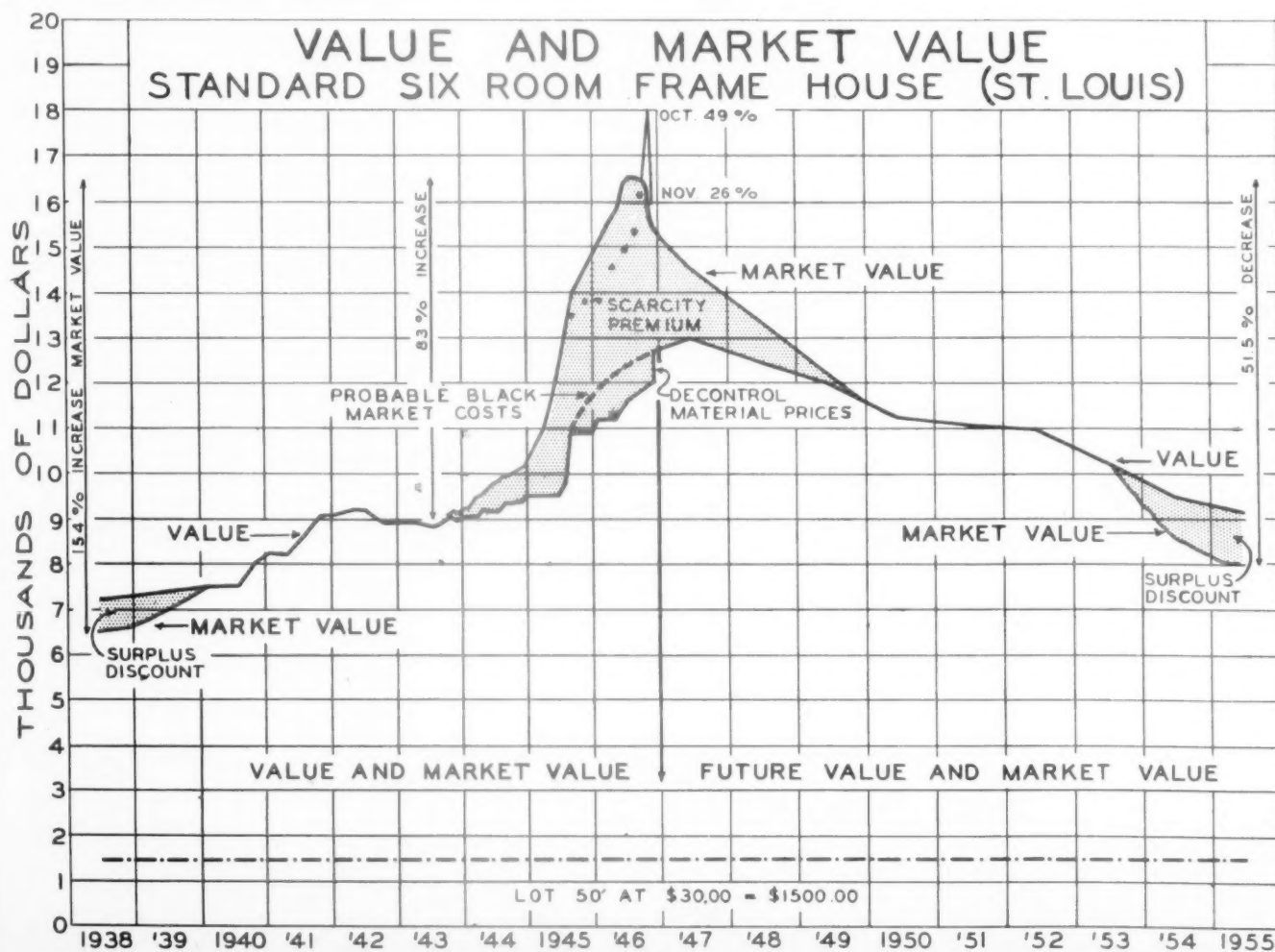
During the conversion period there has been a scarcity of both materials and labor. Many contractors who wanted to take advantage of the scarcity premium entered the field of the land developer in order to secure the profits from both construction and land developing. It was almost impossible to receive a contractor's bid for building an individual house. Because of the high sale prices, such contractors could well afford to buy building materials in black markets and to absorb the high costs of inefficient labor and still make handsome profits.

Because black market prices are seldom recorded, are considered illegal and uncertain and of a very temporary nature, we were compelled to use in figuring material costs only prices from regular and legitimate material dealers. We did

use during this conversion period a ten per cent increase in the total hours of labor to compensate for some inefficiency. It will be noticed that in November 1946 the price of the standard frame house increased about \$700, which resulted from decontrol and the removal of all material price ceilings.

The shortage of housing, which became intense in 1944, grew more serious during 1945 and became critical during 1946. The prices at which properties sold increased rapidly and at a much more rapid rate than the cost to build them. The resulting scarcity premium increased accordingly and by October 1946 reached a peak of 49 per cent above value. For several months prior to this peak, excessive prices had caused the number of sales to decline and the small home was being priced out of the market. This was indicated by a reduction in real estate activity on our activity chart and a marked reduction in the number of sales in the many real estate offices with which we are in contact. Market prices started to soften and the scarcity premium to evaporate, especially with older houses.

The forecasts of future value and market value of the standard frame house used on the chart have been made only after a study of all economic factors and follow the forecasts made by Roy Wenzlick in group consultation in many parts of the country during the past year, and in an interview by Mr. Wenzlick which was published in the November issue of BETTER HOMES AND GARDENS. In this forecast the cost of the standard frame house was estimated for each year from 1947 to 1955, inclusive. In several recent bulletins, it was stated that scarcity premium was the price of shortage and of a very temporary nature.

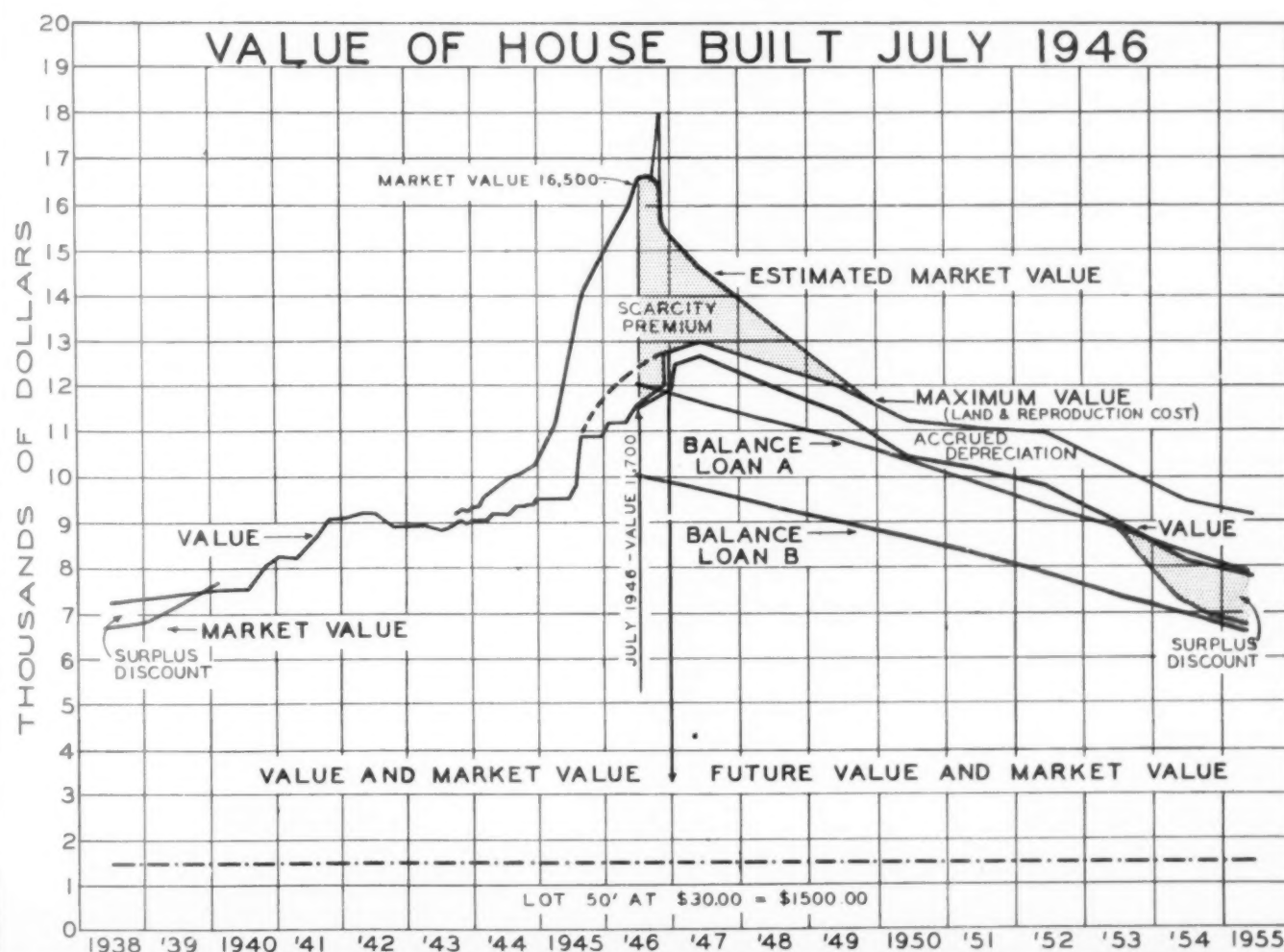


From this forecast it will be noticed that the cost of construction is expected to decline during the next nine years from a peak cost reached in 1947. The scarcity premium will continue its rapid decline and will entirely disappear by 1950. Perhaps there has never been a period in the history of America when the scarcity premium (difference between market price and value) has been so large. In July 1946 the house and lot which cost \$11,700 would have sold for \$16,500, a scarcity premium of \$4,800, or 41 per cent.

In view of the expected decline in construction costs and the rapid disappearance of the scarcity premium, two loans have been assumed in order to determine the effect from the standpoint of both the mortgagor and the mortgagee - Loan A made July 1946 for \$12,000 (72.7 per cent of market value) bearing 4-1/2 per cent interest and amortized in 20 years; and Loan B made July 1946 for \$10,000 (60.5 per cent of market value) bearing 4-1/2 per cent interest and amortized in 20 years. Both of these loans were applied to the house with a value of \$11,700 and a market value of \$16,500 when built in July 1946.

The value of the house built in July 1946 has been estimated each year from 1947 to 1955, inclusive, allowing an accrued depreciation of 2 per cent per year. At the same time, the balance due on both loans (shown in red on the chart below) has been estimated for the same years.

The entire disappearance of the scarcity premium and the loss in value of the house from declining construction costs and depreciation put both of these loans



somewhat in jeopardy. Besides the entire loss of the equity of \$4,500, the value of the property by 1950 about equals the balance owed on Loan A. By 1953, the value of the property drops below the balance due and if by 1955 it becomes necessary for the mortgagee to foreclose and to sell the property, a loss of about \$1,200 would be experienced.

The value of the house will drop below \$8,000 by 1955, which would indicate a loss of more than \$8,500 from the price paid for the house in 1946. In case the mortgagor would have to sell the property in 1955, he could not secure more than the balance due on Loan B on account of the estimated surplus discount. Both Loans A and B used for illustrative purposes are unsuited to this property and are not smart mortgage lending, especially when this house had an appraised value of \$11,700. Too much dependence was placed upon the security of the scarcity premium. The informed mortgagee would have side-stepped these loans or perhaps would have insisted upon an accelerated amortization during the first five years on the basis of a 10-year loan and the amortization of the balance of the loan on a 15-year basis.

The picture that the chart on the preceding page presents is quite unfavorable to the buyer and presents many problems to the mortgagee. It has been generally known that market conditions favored the seller for the past three years, while the buyer must buy to his disadvantage. The buyer must pay the price of shortage which will disappear as soon as the shortage is relieved. This so-called scarcity premium applies to all buyers in existing markets, including veterans.

While Congress has specified that the veteran must not pay more for a house in the market than its appraised "reasonable value" if the veteran wishes to exercise his GI rights for a government guaranteed loan, it has long been our opinion that the "reasonable value" must include the scarcity premium, although it may be hidden like the well-known overcoat in the expense account. This is confirmed in a way by the President of the American Institute of Real Estate Appraisers, who suggests that when an M.A.I. makes a GI appraisal he should write to the veteran explaining the nature of "reasonable value," how the veteran is buying in the existing market with all other buyers, and how the veteran will probably lose money when supply catches up with demand.

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